

Fidelity National Information Services, Inc.

Form 10-Q

May 05, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2010**

**Or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from            to**

**Commission File No. 001-16427**

**FIDELITY NATIONAL INFORMATION SERVICES, INC.**

*(Exact name of registrant as specified in its charter)*

**Georgia**

*(State or other jurisdiction  
of incorporation or organization)*

**37-1490331**

*(I.R.S. Employer  
Identification No.)*

**601 Riverside Avenue**

**Jacksonville, Florida**

*(Address of principal executive offices)*

**32204**

*(Zip Code)*

**(904) 854-5000**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting  
company ☐

*(Do not check if a smaller  
reporting company)*

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)  
Yes ☐ No ☒

As of April 30, 2010, 376,587,420 shares of the Registrant's Common Stock were outstanding.



FORM 10-Q QUARTERLY REPORT  
Quarter Ended March 31, 2010  
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**FIDELITY NATIONAL INFORMATION SERVICES, INC.  
AND SUBSIDIARIES**  
**Condensed Consolidated Balance Sheets**  
**(In millions, except per share amounts)**  
**(Unaudited)**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 463.9	\$ 430.9
Settlement deposits	44.0	50.8
Trade receivables, net of allowance for doubtful accounts of \$42.5 and \$41.8 at March 31, 2010 and December 31, 2009, respectively	717.5	765.4
Settlement receivables	76.7	62.5
Other receivables	49.8	30.9
Receivables from related parties	33.9	32.0
Prepaid expenses and other current assets	149.1	141.2
Deferred income taxes	58.3	80.9
Assets held for sale		71.5
 Total current assets	 1,593.2	 1,666.1
Property and equipment, net	368.9	375.9
Goodwill	8,221.0	8,232.9
Intangible assets, net	2,369.6	2,396.8
Computer software, net	914.1	932.7
Deferred contract costs	249.3	261.4
Other noncurrent assets	117.9	131.8
 Total assets	 \$ 13,834.0	 \$ 13,997.6
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 541.4	\$ 523.2
Due to Brazilian venture partners	72.8	73.0
Settlement payables	108.2	122.3
Current portion of long-term debt	236.9	236.7
Deferred revenues	299.4	279.5
 Total current liabilities	 1,258.7	 1,234.7
Deferred revenues	91.4	104.8
Deferred income taxes	875.9	915.9
Long-term debt, excluding current portion	2,815.6	3,016.6
Other long-term liabilities	234.9	207.0
 Total liabilities	 5,276.5	 5,479.0
Equity:		
FIS stockholders' equity:		

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Preferred stock \$0.01 par value; 200 shares authorized, none issued and outstanding at March 31, 2010 and December 31, 2009		
Common stock \$0.01 par value; 600 shares authorized, 381.1 shares issued at March 31, 2010 and December 31, 2009	3.8	3.8
Additional paid in capital	7,324.4	7,345.1
Retained earnings	1,209.5	1,134.6
Accumulated other comprehensive earnings	54.2	82.2
Treasury stock, \$0.01 par value, 6.7 and 6.6 shares at March 31, 2010 and December 31, 2009, respectively	(239.2)	(256.8)
Total FIS stockholders' equity	8,352.7	8,308.9
Noncontrolling interest	204.8	209.7
Total equity	8,557.5	8,518.6
Total liabilities and equity	\$ 13,834.0	\$ 13,997.6

See accompanying notes to unaudited condensed consolidated financial statements.

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.  
AND SUBSIDIARIES**

**Condensed Consolidated Statements of Earnings  
(In millions, except per share amounts)  
(Unaudited)**

	<b>Three-month periods ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Processing and services revenues (for related party activity, see note 3)	\$ 1,249.6	\$ 794.1
Cost of revenues (for related party activity, see note 3)	907.2	618.4
Gross profit	342.4	175.7
Selling, general and administrative expenses (for related party activity, see note 3)	158.6	95.9
Operating income	183.8	79.8
Other income (expense):		
Interest expense, net	(28.3)	(31.2)
Other income (expense), net	(5.3)	1.2
Total other income (expense)	(33.6)	(30.0)
Earnings from continuing operations before income taxes	150.2	49.8
Provision for income taxes	55.6	17.1
Earnings from continuing operations, net of tax	94.6	32.7
Loss from discontinued operations, net of tax	(1.1)	
Net earnings	93.5	32.7
Net loss attributable to noncontrolling interest	0.1	0.3
Net earnings attributable to FIS	\$ 93.6	\$ 33.0
Net earnings per share basic from continuing operations attributable to FIS common stockholders	\$ 0.25	\$ 0.17
Net earnings per share basic from discontinued operations attributable to FIS common stockholders		
Net earnings per share basic attributable to FIS common stockholders	\$ 0.25	\$ 0.17
Weighted average shares outstanding basic	373.3	190.0
Net earnings per share diluted from continuing operations attributable to FIS common stockholders	\$ 0.25	\$ 0.17
Net earnings per share diluted from discontinued operations attributable to FIS common stockholders		
Net earnings per share diluted attributable to FIS common stockholders	\$ 0.25	\$ 0.17

Weighted average shares outstanding    diluted	379.9	191.6
Cash dividends paid per share	\$    0.05	\$    0.05
<b>Amounts attributable to FIS common stockholders</b>		
Earnings from continuing operations, net of tax	\$    94.7	\$    33.0
Loss from discontinued operations, net of tax	(1.1)	
Net earnings attributable to FIS	\$    93.6	\$    33.0

See accompanying notes to unaudited condensed consolidated financial statements.



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**FIDELITY NATIONAL INFORMATION SERVICES, INC.  
AND SUBSIDIARIES**  
**Condensed Consolidated Statement of Equity and Comprehensive Earnings**  
**(In millions, except per share amounts)**  
**(Unaudited)**

	Amount									
	FIS Stockholders									
	Accumulated									
	Other									
	Number of									
	Shares	Treasury	Common	Paid In	Retained	Earnings	Treasury	Noncontrolling	Comprehensive	Total
	Shares	Stock	Stock	Capital	Earnings	(Loss)	Stock	Interest	Earnings	Equity
Balances, December 31, 2009	381.1	(6.6)	\$ 3.8	\$ 7,345.1	\$ 1,134.6	\$ 82.2	\$ (256.8)	\$ 209.7	\$	\$ 8,518.6
Exercise of stock options and stock purchase rights		1.3		(36.6)			49.8			13.2
Tax benefit associated with exercise of stock options				(0.1)						(0.1)
Stock-based compensation				16.0						16.0
Purchases of treasury stock		(1.4)					(32.2)			(32.2)
Cash dividends paid (\$0.05 per share) and other					(18.7)			(0.8)		(19.5)
Comprehensive earnings:										
Net earnings					93.6			(0.1)	93.5	93.5
Other comprehensive earnings, net of tax:										
Unrealized gain on investments and derivatives, net						(7.0)			(7.0)	(7.0)
Unrealized gain on foreign currency translation						(21.0)		(4.0)	(25.0)	(25.0)
									\$ 61.5	

Comprehensive  
earnings:

Balances,										
March 31, 2010	381.1	(6.7)	\$ 3.8	\$ 7,324.4	\$ 1,209.5	\$ 54.2	\$ (239.2)	\$ 204.8		\$ 8,557.5

See accompanying notes to unaudited condensed consolidated financial statements.

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.  
AND SUBSIDIARIES**

**Condensed Consolidated Statements of Cash Flows**

**(In millions)**

**(Unaudited)**

	<b>Three-month periods ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Net earnings	\$ 93.5	\$ 32.7
Adjustment to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	152.8	92.0
Stock-based compensation	16.0	9.5
Deferred income taxes	(8.5)	1.3
Income tax benefit from exercise of stock options	0.1	(0.1)
Other operating activities, net	5.4	0.9
Changes in assets and liabilities, net of effects from acquisitions:		
Net decrease (increase) in trade receivables	45.7	68.9
Net decrease (increase) in settlement receivables	(21.6)	0.7
Net decrease (increase) in prepaid expenses and other assets	(9.2)	19.1
Net increase in deferred contract costs	(7.2)	(10.9)
Net increase (decrease) in deferred revenue	11.5	16.0
Net increase (decrease) in accounts payable, accrued liabilities, and other liabilities	(6.9)	(67.2)
Net cash provided by operating activities	271.6	162.9
Cash flows from investing activities:		
Additions to property and equipment	(20.8)	(15.0)
Additions to computer software	(37.4)	(30.3)
Net proceeds from sale of assets	71.5	
Acquisitions, net of cash acquired	(50.0)	(3.0)
Other investing activities, net	39.2	
Net cash provided by (used in) investing activities	2.5	(48.3)
Cash flows from financing activities:		
Borrowings	1,841.6	541.8
Repayment of borrowings	(2,042.0)	(595.9)
Income tax benefits from exercise of stock options	(0.1)	0.1
Proceeds from exercise of stock options	13.2	3.6
Treasury stock purchases	(32.2)	
Dividends paid	(19.5)	(9.5)
Net cash used in financing activities	(239.0)	(59.9)
Effect of foreign currency exchange rates on cash	(2.1)	(3.6)
Net increase in cash and cash equivalents	33.0	51.1
Cash and cash equivalents, beginning of period	430.9	220.9

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Cash and cash equivalents, end of period	\$ 463.9	\$ 272.0
Cash paid for interest	\$ 35.5	\$ 30.7
Cash paid for taxes	\$ 14.5	\$ 37.9

See accompanying notes to unaudited condensed consolidated financial statements.

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.  
AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

*Unless stated otherwise or the context otherwise requires, all references to FIS, we, the Company or the registrant to Fidelity National Information Services, Inc., a Georgia corporation and all references to Metavante are to Metavante Technologies, Inc., and its subsidiaries, as acquired by FIS on October 1, 2009.*

**(1) Basis of Presentation**

The unaudited financial information included in this report includes the accounts of FIS and its subsidiaries prepared in accordance with U.S. generally accepted accounting principles and the instructions to Form 10-Q and Article 10 of Regulation S-X. All adjustments considered necessary for a fair presentation have been included. This report should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2009. The preparation of these Condensed Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Certain reclassifications have been made in the 2009 Condensed Consolidated Financial Statements to conform to the classifications used in 2010.

We report the results of our operations in four reporting segments: 1) Financial Solutions Group ( FSG ), 2) Payment Solutions Group ( PSG ), 3) International Solutions Group ( ISG ) and 4) Corporate and Other (Note 11).

**(2) Change in Accounting for Revenue Recognition**

In October 2009, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements-* ( ASU 2009-13 ). This new standard revises the guidance for determining whether multiple deliverables in an arrangement can be separated for revenue recognition and how the consideration should be allocated. It eliminates the use of the residual method of revenue recognition and requires the allocation of consideration to each deliverable using the relative selling price method. The selling price for each deliverable is based on vendor-specific objective evidence ( VSOE ) if available, third-party evidence ( TPE ) if VSOE is not available, or estimated selling price ( ESP ) if neither VSOE or TPE is available.

FIS early adopted the provisions of ASU 2009-13 prospectively for all new and materially modified arrangements after January 1, 2010.

We establish VSOE of selling price using the price charged when the same element is sold separately, or in the case of post-contract customer support or other recurring services, when a substantive stated renewal rate is provided to the customer. In certain limited circumstances, the Company is not able to establish VSOE for all deliverables in a multiple element arrangement. This may be due to the infrequent occurrence of standalone sales for an element, a limited sales history for new solutions or pricing within a broader range than permissible by our policy to establish VSOE. In those circumstances, we proceed to the alternative levels in the hierarchy of determining selling price. TPE of selling price is established by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. The Company is typically not able to determine TPE and we have not used this measure since we are unable to reliably verify standalone prices of competitive solutions. ESP is established in those instances where neither VSOE nor TPE are available, considering internal factors such as margin objectives, pricing practices and controls, customer segment pricing strategies and the product life cycle. Consideration is also given to market conditions such as competitor pricing strategies and industry technology life cycles. Use of ESP was limited to a very small portion of our solutions, principally software license fees and related installation fees.

The Company's arrangements with multiple deliverables may include one or more elements that are subject to the existing software revenue recognition guidance. The consideration for these multiple element arrangements is allocated to the software deliverables and the non-software deliverables based on the relative selling prices of all of the elements in the arrangement using the hierarchy in ASU 2009-13. The appropriate revenue recognition guidance is then applied to the respective software and non-software elements.

Processing and services revenues would have been approximately \$2.0 million less than reported if the new or materially modified arrangements after January 1, 2010 had been subject to the prior accounting guidance.

This new guidance did not have a material impact on revenue recognition due to the existence of VSOE for most of the Company's solutions. While the impact of adopting this change going forward will be a function of the component elements of new contracts

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.  
AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued**

entered into or materially modified, we expect a minimal impact in the timing and pattern of revenue recognition since we have established VSOE for those solutions comprising the vast majority of our revenues. The effect of the change will primarily relate to arrangements that include software licenses with other service elements that have historically resulted in revenue deferral for certain non-software elements. The Company does not expect this new accounting guidance to impact its future pricing practices or go-to-market strategies.

**(3) Related Party Transactions**

We are party to certain related party agreements described below.

**Revenues and Expenses**

A detail of related party items included in revenues for the three-month periods ended March 31, 2010 and 2009 is as follows (in millions):

	<b>2010</b>	<b>2009</b>
Banco Santander item processing revenue	\$ 10.7	\$ 8.6
Banco Bradesco item processing revenue	3.9	3.0
Banco Santander Brazilian Venture revenue	12.8	11.2
Banco Bradesco Brazilian Venture revenue	32.3	17.9
FNF data processing services revenue	11.6	11.8
Sedgwick data processing services revenue	8.9	10.0
Ceridian data processing services revenue	1.9	0.8
LPS services revenue	0.1	0.1
Total related party revenues	\$ 82.2	\$ 63.4

See Note 7 for a discussion of the Brazilian outsourced card-processing venture with Banco Santander and Banco Bradesco (the Brazilian Venture ).

A detail of related party items included in operating expenses (net of expense reimbursements) for the three-month periods ended March 31, 2010 and 2009 is as follows (in millions):

	<b>2010</b>	<b>2009</b>
Equipment and real estate leasing with FNF and LPS	\$ 0.6	\$ 5.9
Administrative corporate support and other services with FNF and LPS	0.8	(0.5)
Total related party expenses	\$ 1.4	\$ 5.4

**FNF**

We provide data processing services to Fidelity National Financial, Inc. ( FNF ), our former parent, consisting primarily of infrastructure support and data center management. The Executive Chairman of the Board of Directors of FIS is also the Executive Chairman of the Board of Directors of FNF. Our agreement with FNF runs through June 30, 2013, with an option to renew for one or two additional years, subject to certain early termination provisions (including the payment of minimum monthly service and termination fees). During the 2009 third quarter, FNF entered into a transaction that triggered the repayment of the \$5.9 million note payable to FIS. We recorded interest income related to this note of less than \$0.1 million for the three months ended March 31, 2009. Historically, FNF has provided to us, and to a lesser extent we have provided to FNF, certain administrative support services relating to general management and administration. The pricing for these services, both to and from FNF, is at cost. We also incurred expenses for amounts paid by us to FNF under leases of certain personal property and technology equipment.

**Ceridian**

We provide business process outsourcing services to Ceridian Corporation ( Ceridian ), a company in which FNF holds an approximate 33% equity interest.



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**FIDELITY NATIONAL INFORMATION SERVICES, INC.  
AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued**

***Sedgwick***

We provide data processing services to Sedgwick CMS, Inc. ( Sedgwick ), a company in which FNF holds an approximate 32% equity interest.

***LPS***

We provide transitional services to Lender Processing Services, Inc. ( LPS ) as a result of the spin-off of this former subsidiary in July, 2008. In addition, we have entered into certain property management and real estate lease agreements with LPS relating to our Jacksonville corporate headquarters. LPS remained a related party through March 1, 2010 as Lee A. Kennedy served as the Executive Vice Chairman and a Director of the Board of FIS as well as the Chairman of the Board of LPS. Mr. Kennedy joined the FIS board in February 2006 and served as FIS President and Chief Executive Officer until the acquisition of Metavante on October 1, 2009. Effective March 1, 2010, Mr. Kennedy and the Company mutually agreed that he will no longer serve as an executive officer and director of the Company and its subsidiaries. The revenue and expense items with LPS are, therefore, summarized above as related party activity through March 1, 2010.

We believe the amounts earned from or charged by us under each of the foregoing arrangements are fair and reasonable. We believe our service arrangements are priced within the range of prices we offer to third parties. However, the amounts we earned or that were charged under these arrangements were not negotiated at arm's-length, and may not represent the terms that we might have obtained from an unrelated third party.

**(4) Unaudited Net Earnings per Share**

The basic weighted average shares and common stock equivalents for the three-month periods ended March 31, 2010 and 2009 are computed using the treasury stock method.

The following table summarizes the earnings per share attributable to FIS common stockholders, for the three-month periods ended March 31, 2010 and 2009 (in millions, except per share amounts):

	<b>2010</b>	<b>2009</b>
Earnings from continuing operations attributable to FIS, net of tax	\$ 94.7	\$ 33.0
Loss from discontinued operations attributable to FIS, net of tax	(1.1)	
Net earnings attributable to FIS	\$ 93.6	\$ 33.0
Weighted average shares outstanding basic	373.3	190.0
Plus: Common stock equivalent shares assumed from conversion of options	6.6	1.6
Weighted average shares outstanding diluted	379.9	191.6
Net earnings per share basic from continuing operations attributable to FIS common stockholders	\$ 0.25	\$ 0.17
Net earnings per share basic from discontinued operations attributable to FIS common stockholders		
Net earnings per share basic attributable to FIS common stockholders	\$ 0.25	\$ 0.17
Net earnings per share diluted from continuing operations attributable to FIS common stockholders	\$ 0.25	\$ 0.17
Net earnings per share diluted from discontinued operations attributable to FIS common stockholders		

