

Fidelity National Information Services, Inc.

Form 10-Q

November 09, 2006

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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 September 30, 2006

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) 854-8100

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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 September 30, 2006, 190,449,921 shares of the Registrant's Common Stock were outstanding.

FORM 10-Q
QUARTERLY REPORT
Quarter Ended September 30, 2006
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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES AND AFFILIATES
Consolidated Balance Sheets
(In thousands)**

	September 30, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 174,690	\$ 133,152
Trade receivables, net of allowance for doubtful accounts of \$29.7 million and \$17.9 million, respectively, at September 30, 2006 and December 31, 2005	567,885	427,480
Other receivables	138,102	57,365
Settlement deposits	42,609	
Settlement receivables	22,563	
Receivable from related party	4,725	9,146
Prepaid expenses and other current assets	125,960	58,228
Deferred income taxes	90,415	105,845
 Total current assets	 1,166,949	 791,216
 Property and equipment, net of accumulated depreciation and amortization of \$247.4 million and \$186.8 million, respectively, at September 30, 2006 and December 31, 2005	 299,267	 220,425
Goodwill	3,782,225	1,787,713
Intangible assets, net of accumulated amortization of \$420.5 million and \$292.7 million, respectively, at September 30, 2006 and December 31, 2005	1,054,065	508,780
Computer software, net of accumulated amortization of \$306.3 million and \$208.9 million, respectively, at September 30, 2006 and December 31, 2005	626,637	451,993
Deferred contract costs	231,452	183,263
Investment in common stock and warrants of Covansys	149,227	136,024
Other noncurrent assets	122,297	109,607
 Total assets	 \$ 7,432,119	 \$ 4,189,021
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 494,166	\$ 309,591
Settlement payables	65,172	
Current portion of long-term debt	24,140	33,673
Deferred revenues	263,386	254,534
 Total current liabilities	 846,864	 597,798
 Deferred revenues	 105,052	 111,536
Deferred income taxes	389,263	153,193

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Long-term debt, excluding current portion	2,844,651	2,530,455
Other long-term liabilities	187,222	88,409
Total liabilities	4,373,052	3,481,391
Minority interest	12,706	13,060
Stockholders' equity:		
Preferred stock \$0.01 par value; 200 million shares authorized, none issued and outstanding at September 30, 2006 and December 31, 2005, respectively		
Common stock \$0.01 par value; 600 million shares authorized, 197.4 million and 127.9 million shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	1,974	1,279
Treasury stock \$0.01 par value; 7.0 million shares as of September 30, 2006	(103,878)	
Additional paid in capital	2,823,384	545,639
Retained earnings	311,465	156,127
Accumulated other comprehensive earnings (loss)	13,416	(8,475)
Total stockholders' equity	3,046,361	694,570
Total liabilities and stockholders' equity	\$ 7,432,119	\$ 4,189,021

See accompanying notes to the consolidated and combined financial statements

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

Consolidated and Combined Statements of Earnings

(In thousands, except per share amounts)

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2006	2005	2006	2005
	(Unaudited)		(Unaudited)	
Processing and services revenues, including \$37.8 million and \$33.8 million of revenues from related parties for the three month periods and \$105.9 million and \$85.0 million of revenues from related parties for the nine month periods ended September 30, 2006 and 2005, respectively	\$ 1,080,651	\$ 698,109	\$ 3,003,533	\$ 2,058,402
Cost of revenues, including depreciation and amortization of \$96.6 million and \$58.4 million for the three month periods and \$278.5 million and \$185.4 million for the nine month periods ended September 30, 2006 and 2005, respectively, and \$0.6 million and \$0.7 million of expenses to related parties for the three month periods and \$2.4 million and \$2.1 million for the nine month periods ended September 30, 2006 and 2005, respectively	772,580	447,794	2,114,635	1,331,373
Gross profit	308,071	250,315	888,898	727,029
Selling, general, and administrative expenses, including depreciation and amortization of \$14.5 million and \$12.4 million, and expenses to related parties of \$6.3 million and \$10.7 million for the three month periods ended September 30, 2006 and 2005, respectively, and depreciation and amortization of \$39.8 million and \$36.4 million, and expenses to related parties of \$18.6 million and \$37.0 million for the nine month periods ended September 30, 2006 and 2005, respectively	112,724	93,047	384,319	312,921
Research and development costs	25,855	33,545	77,561	85,784
Operating income	169,492	123,723	427,018	328,324
Other income (expense):				
Interest income	477	1,790	3,901	4,826
Interest expense	(49,717)	(37,548)	(142,018)	(87,357)
Other expense, net	(593)	821	(1,837)	(2,391)

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Total other income (expense)	(49,833)	(34,937)	(139,954)	(84,922)
Earnings before income taxes, equity in earnings of unconsolidated entities and minority interest	119,659	88,786	287,064	243,402
Provision for income taxes	42,799	31,112	106,915	90,546
Earnings before equity in earnings of unconsolidated entities and minority interest	76,860	57,674	180,149	152,856
Equity in earnings of unconsolidated entities	1,686	2,135	3,778	4,379
Minority interest	(34)	1,917	(40)	6,171
Net earnings	\$ 78,580	\$ 57,892	\$ 183,967	\$ 151,064
Net earnings per share basic	\$ 0.41	\$ 0.45	\$ 1.00	\$ 1.18
Weighted average shares outstanding basic	190,680	127,920	184,373	127,920
Net earnings per share diluted	\$ 0.41	\$ 0.45	\$ 0.98	\$ 1.18
Weighted average shares outstanding diluted	193,626	127,920	187,405	127,920

See accompanying notes to the consolidated and combined financial statements

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES AND AFFILIATES
Consolidated and Combined Statements of Comprehensive Earnings
(In thousands)**

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2006	2005	2006	2005
	(Unaudited)		(Unaudited)	
Net earnings	\$ 78,580	\$ 57,892	\$ 183,967	\$ 151,064
Other comprehensive earnings (loss):				
Unrealized gain (loss) on Covansys warrants(1)	7,659	5,462	6,434	(4,775)
Unrealized gain (loss) on interest rate swaps(2)	(2,788)	5,078	452	1,306
Unrealized gain (loss) on foreign currency translation	(128)	6,663	15,005	(7,660)
Other comprehensive earnings (loss)	4,743	17,203	21,891	(11,129)
Comprehensive earnings	\$ 83,323	\$ 75,095	\$ 205,858	\$ 139,935

(1) Net of income tax expense (benefit) of \$4.8 million and \$3.4 million for the three month periods and \$4.0 million and \$(3.0)million for the nine month periods ended September 30, 2006 and 2005, respectively.

(2) Net of income tax expense (benefit) of \$(1.8) million and \$3.2 million for the three month periods and \$0.3 million and \$0.8 million for the nine month periods ended September 30,

2006 and 2005,
respectively.

See accompanying notes to the consolidated and combined financial statements

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES AND AFFILIATES
Consolidated Statement of Stockholders' Equity
(In thousands)
(Unaudited)**

	Common Shares	Common Stock	Treasury Shares	Treasury Stock	Additional Paid in Capital	Retained Earnings	Accumulated other comprehensive earnings (loss)	Total Stockholders' Equity
Balances, December 31, 2005	127,920	\$ 1,279		\$	\$ 545,639	\$ 156,127	\$ (8,475)	\$ 694,570
Net earnings						183,967		183,967
Dividends paid						(28,629)		(28,629)
Certegy acquisition	69,507	695	(5,964)	(60)	2,170,619			2,171,254
Exercise of stock options			1,817	19	40,497			40,516
Tax benefit associated with exercise of stock options					18,663			18,663
Stock-based compensation					37,222			37,222
Purchases of treasury stock			(2,830)	(103,837)				(103,837)
National NY contribution from FNF					10,744			10,744
Unrealized gain on investments and derivatives, net							6,886	6,886
Unrealized gain on foreign currency translation							15,005	15,005
Balances, September 30, 2006	197,427	\$ 1,974	(6,977)	\$(103,878)	\$ 2,823,384	\$ 311,465	\$ 13,416	\$ 3,046,361

See accompanying notes to the consolidated and combined financial statements

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES AND AFFILIATES
Consolidated and Combined Statements of Cash Flows
(In thousands)**

	Nine month periods ended September 30,	
	2006	2005
	(Unaudited)	
Cash flows from operating activities:		
Net earnings	\$ 183,967	\$ 151,064
Adjustment to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	318,304	221,885
Gain on sale of assets	(1,837)	(2,391)
Stock-based compensation	37,222	16,016
Deferred income taxes	29,898	39,455
Changes in assets and liabilities, net of effects from acquisitions:		
Net decrease in trade receivables	65,225	21,045
Net (increase) decrease in prepaid expenses and other assets	(41,682)	4,438
Net decrease in deferred revenue	(5,506)	(37,892)
Net increase in deferred contract costs	(70,594)	(73,120)
Net (decrease) increase in accounts payable, accrued liabilities and other liabilities	(142,019)	64,048
Net cash provided by operating activities	372,978	404,548
Cash flows from investing activities:		
Additions to property and equipment	(79,078)	(63,981)
Additions to capitalized software	(137,456)	(116,516)
Acquisitions, net of cash acquired	122,621	(51,174)
Net cash used in investing activities	(93,913)	(231,671)
Cash flows from financing activities:		
Borrowings	208,000	2,800,000
Debt service payments	(368,576)	(703,133)
Capitalized debt issuance costs	(5,059)	(33,540)
Sale of stock, net of transactions costs		454,336
Dividends paid	(28,629)	(2,700,000)
Income tax benefit from exercise of stock options	18,663	
Stock options exercised	40,516	
Treasury stock purchases	(103,837)	
Net contribution from FNF	1,395	
Net cash used in financing activities	(237,527)	(182,337)
Net increase in cash and cash equivalents	41,538	(9,460)
Cash and cash equivalents, beginning of year	133,152	190,888
Cash and cash equivalents, end of year	\$ 174,690	\$ 181,428

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Cash paid for interest	\$ 141,447	\$ 73,036
Cash paid for taxes	\$ 48,808	\$ 48,424
Non-cash contribution of capital-National NY	\$ 9,349	\$

See accompanying notes to the consolidated and combined financial statements

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**FIDELITY NATIONAL INFORMATION SERVICES, INC. AND SUBSIDIARIES AND AFFILIATES
 CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)
 NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)**

(1) Basis of Presentation

Fidelity National Information Services, Inc. (FIS or the Company) is a leading provider of technology solutions, processing services, and information-based services to the financial services industry. The Company's formation began in early 2004 and was substantially completed on March 8, 2005, when all the entities, assets and liabilities that are included in these Consolidated and Combined Financial Statements as of March 8, 2005 were organized under one legal entity. (as discussed below). The formation was accomplished through the contribution of entities and operating assets and liabilities to a newly formed subsidiary of Fidelity National Financial, Inc. (FNF). The Consolidated and Combined Financial Statements included herein reflect the historical financial position, results of operations and cash flows of the businesses included in the formation. On February 1, 2006, the Company completed the Merger with Certegy Inc. (Certegy) (the Merger) (note 5) which was accounted for as a reverse acquisition and purchase accounting was applied to the acquired assets and assumed liabilities of Certegy. In form, Certegy was the legal acquirer in the Merger and the continuing registrant for SEC reporting purposes. However, due to the majority ownership in the combined entity held by FIS shareholders, FIS was designated the acquirer for accounting purposes and, effective on Merger date, the historic financial statements of FIS became the historical financial statements of the continuing registrant for all periods prior to the Merger. The results of operations of Certegy are only included in these historical financial statements for periods subsequent to the Merger. Immediately after the Merger, the name of the SEC registrant was changed to Fidelity National Information Services, Inc.

As a result of the Merger, each outstanding share of FIS common stock was exchanged for 0.6396 shares of common stock of Certegy, which has a par value of \$0.01 per share. All share and per share amounts disclosed in these financial statements and footnotes for periods prior to February 1, 2006 are presented as converted by the exchange ratio used in the Merger.

Shortly after consummating the Merger, the Company implemented a new organizational structure, which resulted in the formation of new operating segments beginning with the reporting of results for the first quarter of 2006 (note 17). Effective as of February 1, 2006, the Company's reportable segments are Transaction Processing Services, or TPS, and Lender Processing Services, or LPS. This structure reflects how the businesses are managed consistent with the new operating structure adopted following the Merger. The primary components of the TPS segment are Certegy's former reportable segments of Card and Check Services and the financial institution processing businesses of FIS's former Financial Institution Software and Services segment (Enterprise Solutions, Integrated Financial Solutions, and International operations). The primary components of the LPS segment are Mortgage Processing and Information Services, which include the mortgage lender processing component of FIS's former Financial Institution Software and Services segment, and FIS's former Lender Services, Default Management, and Information Services segments.

The unaudited financial information included in this report includes the accounts of FIS prepared in accordance with generally accepted accounting principles in the United States and the instructions to Form 10-Q and Article 5 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, 2005.

(2) Combination with FNF

On June 25, 2006, the Company entered into an agreement and plan of merger (the Merger Agreement) with FNF (amended September 18, 2006). This merger was one step in a plan that eliminated FNF's holding company structure and majority ownership of FIS. In connection with this plan, FNF also entered into a securities exchange and distribution agreement (the SEDA) with its subsidiary Fidelity National Title Group, Inc. (FNT). Under the SEDA, FNF agreed that, prior to the merger, FNF would transfer substantially all its assets and liabilities to FNT, in exchange for shares of FNT common stock. FNF then would spin-off all shares of FNT stock it held to the stockholders of FNF in a tax-free distribution. Pursuant to the Merger Agreement, on November 9, 2006 FNF merged with and into FIS (the FNF Merger), with FIS continuing as the surviving corporation. In consideration for the FNF Merger, FNF stockholders received an aggregate of 96,521,877 shares of FIS stock for their FNF shares. In addition, in connection with the merger FIS will issue options to purchase FIS common stock and shares of FIS restricted stock in exchange

for FNF options and restricted stock outstanding at the time of the merger. The merger followed the completion on October 24, 2006, of FNT's acquisition under the SEDA of substantially all of the assets and liabilities of FNF (other than FNF's interests in FIS and in FNF Capital Leasing, Inc., a small subsidiary which merged into FIS in a separate transaction) in exchange for 45,265,956 shares of FNT's Class A common stock and the subsequent spin-off of FNT shares. The assets transferred included FNF's specialty insurance

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**FIDELITY NATIONAL INFORMATION SERVICES, INC. AND SUBSIDIARIES AND AFFILIATES
CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited) Continued**

business, its interest in certain claims management operations, certain timber and real estate holdings and certain smaller operations, together with all cash and certain investment assets held by FNF as of October 24, 2006. Pursuant to the SEDA and after the completion of all of the transactions, FNT will be renamed Fidelity National Financial, Inc. (New FNF) and will trade under the symbol FNF. Current FNF Chairman and CEO William P. Foley, II, assumed the same positions in New FNF and now serves as Executive Chairman of FIS, and other key members of FNF senior management will continue their involvement in both New FNF and FIS in executive capacities.

U.S. generally accepted accounting principles require that one of the two parties to the FNF Merger be designated as the acquirer for accounting purposes. However, Financial Accounting Standards Board Technical Bulletin 85-5,

Issues Relating to Accounting for Business Combinations provides that if a transaction lacks substance, it is not a purchase event and should be accounted for based on existing carrying amounts. In the FNF Merger, the minority interest of FIS does not change and, in substance, the only assets and liabilities of the combined entity after the exchange are those of FIS prior to the exchange. Because a change in ownership of the minority interest has not taken place, the exchange will be accounted for based on the carrying amounts of FIS's assets and liabilities.

(3) Summary of Significant Accounting Policies

The following describes the significant accounting policies of the Company which have been followed in preparing the accompanying Consolidated and Combined Financial Statements.

(a) Principles of Consolidation and Combination and Basis of Presentation

Prior to March 9, 2005, the historical financial statements of the Company were presented on a combined basis. Beginning March 9, 2005, after all the assets and liabilities of the Company were formally contributed to the holding company, the historical financial statements of the Company have been presented on a consolidated basis for financial reporting purposes. The accompanying unaudited Consolidated and Combined Financial Statements include those assets, liabilities, revenues, and expenses directly attributable to FIS's operations and, prior to March 9, 2005, allocations of certain FNF corporate assets, liabilities and expenses to FIS.

All significant intercompany profits, transactions and balances have been eliminated in consolidation or combination. The financial information included herein does not necessarily reflect what the financial position and results of operations of the Company would have been had it operated as a stand-alone entity during the periods covered.

The Company's investments in less than 50% owned partnerships and affiliates are accounted for using the equity method of accounting.

All dollar amounts presented in these notes and in the accompanying Consolidated and Combined Financial Statements (except per share amounts) are in thousands unless indicated otherwise.

(b) Transactions with Related Parties

Related Party Transactions

FIS has historically conducted business with FNF and FNT. In March 2005, in connection with the recapitalization and sale of equity interest, FIS entered into various agreements with FNF under which it has continued to provide title agency services, title plant management, and IT services. Further, the Company also entered into service agreements with FNF under which FNF continued to provide corporate services. In September 2005, when FNT was formed and the title insurance business was consolidated under FNT, many of these agreements were amended and restated to take into account the services that would be performed for and by FNT rather than FNF. On February 1, 2006, in connection with the closing of the Certegy Merger, many of these agreements were further amended and restated to reflect certain changes in the parties' relationships. Certain of

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