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Fidelity National Information Services, Inc.
Form 10-Q
November 07, 2012
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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, 2012

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)
(904) 438-6000
(Registrant's telephone number, including area code)

32204
(Zip 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
(Do not check if a smaller reporting company) 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 October 31, 2012, 293,198,202 shares of the Registrant's Common Stock were outstanding.

FORM 10-Q
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AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In millions, except per share amounts)

(Unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$576.6	\$415.5
Settlement deposits	28.8	43.9
Trade receivables, net of allowance for doubtful accounts of \$27.4 and \$33.1 as of September 30, 2012 and December 31, 2011, respectively	886.0	858.5
Settlement receivables	94.6	78.1
Other receivables	43.6	40.1
Due from related parties	66.1	56.9
Prepaid expenses and other current assets	130.1	117.1
Deferred income taxes	49.6	72.6
Total current assets	1,875.4	1,682.7
Property and equipment, net	424.4	414.5
Goodwill	8,377.3	8,542.8
Intangible assets, net	1,641.9	1,903.3
Computer software, net	852.1	881.5
Deferred contract costs, net	225.3	232.7
Other noncurrent assets	229.6	190.8
Total assets	\$13,626.0	\$13,848.3
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$674.9	\$641.5
Due to Brazilian venture partner	18.7	36.5
Settlement payables	135.6	141.2
Current portion of long-term debt	140.3	259.2
Deferred revenues	241.3	276.5
Total current liabilities	1,210.8	1,354.9
Deferred revenues	43.7	55.9
Deferred income taxes	819.6	872.5
Long-term debt, excluding current portion	4,391.7	4,550.6
Due to Brazilian venture partner	40.1	50.6
Other long-term liabilities	343.4	312.6
Total liabilities	6,849.3	7,197.1
Equity:		
FIS stockholders' equity:		
Preferred stock, \$0.01 par value, 200 shares authorized, none issued and outstanding as of September 30, 2012 and December 31, 2011	—	—
Common stock, \$0.01 par value, 600 shares authorized, 384.6 shares issued as of September 30, 2012 and December 31, 2011	3.8	3.8

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Additional paid in capital	7,218.8	7,224.7
Retained earnings	2,028.5	1,880.4
Accumulated other comprehensive earnings	35.4	36.3
Treasury stock, \$0.01 par value, 92.0 and 91.7 shares as of September 30, 2012 and December 31, 2011, respectively, at cost	(2,654.9	) (2,642.2
Total FIS stockholders' equity	6,631.6	6,503.0
Noncontrolling interest	145.1	148.2
Total equity	6,776.7	6,651.2
Total liabilities and equity	\$13,626.0	\$13,848.3

See accompanying notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Earnings

(In millions, except per share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Processing and services revenues (for related party activity, see note 2)	\$1,436.9	\$1,398.2	\$4,307.5	\$4,164.3
Cost of revenues	968.8	965.3	2,939.4	2,931.0
Gross profit	468.1	432.9	1,368.1	1,233.3
Selling, general, and administrative expenses (for related party activity, see note 2)	180.2	159.7	575.0	495.8
Operating income	287.9	273.2	793.1	737.5
Other income (expense):				
Interest expense, net	(54.0)	(60.5)	(170.0)	(194.3)
Other income (expense), net	(1.5)	(0.8)	(24.2)	2.3
Total other income (expense), net	(55.5)	(61.3)	(194.2)	(192.0)
Earnings from continuing operations before income taxes	232.4	211.9	598.9	545.5
Provision for income taxes	79.0	64.6	192.0	175.5
Earnings from continuing operations, net of tax	153.4	147.3	406.9	370.0
Earnings (loss) from discontinued operations, net of tax	(61.0)	(7.1)	(70.6)	(10.9)
Net earnings	92.4	140.2	336.3	359.1
Net (earnings) loss attributable to noncontrolling interest	(5.6)	(3.9)	(11.8)	(6.5)
Net earnings attributable to FIS	\$86.8	\$136.3	\$324.5	\$352.6
Net earnings per share — basic from continuing operations attributable to FIS common stockholders	\$0.51	\$0.48	\$1.35	\$1.20
Net earnings (loss) per share — basic from discontinued operations attributable to FIS common stockholders	(0.21)	(0.02)	(0.24)	(0.04)
Net earnings per share — basic attributable to FIS common stockholders *	\$0.30	\$0.45	\$1.11	\$1.17
Weighted average shares outstanding — basic	292.4	300.9	291.6	302.0
Net earnings per share — diluted from continuing operations attributable to FIS common stockholders	\$0.50	\$0.47	\$1.33	\$1.18
Net earnings (loss) per share — diluted from discontinued operations attributable to FIS common stockholders	(0.20)	(0.02)	(0.24)	(0.04)
Net earnings per share — diluted attributable to FIS common stockholders *	\$0.29	\$0.44	\$1.09	\$1.14
Weighted average shares outstanding — diluted	297.9	306.8	297.2	308.8
Cash dividends paid per share	\$0.20	\$0.05	\$0.60	\$0.15
Amounts attributable to FIS common stockholders:				
Earnings from continuing operations, net of tax	\$147.8	\$143.4	\$395.1	\$363.5
Earnings (loss) from discontinued operations, net of tax	(61.0)	(7.1)	(70.6)	(10.9)
Net earnings attributable to FIS	\$86.8	\$136.3	\$324.5	\$352.6

* Amounts may not sum due to rounding.

See accompanying notes to unaudited condensed consolidated financial statements.

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FIDELITY NATIONAL INFORMATION SERVICES, INC.
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Condensed Consolidated Statements of Comprehensive Earnings
(In millions, except per share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,					
	2012	2011	2012	2011				
Net earnings		\$92.4	\$140.2		\$336.3		\$359.1	
Other comprehensive earnings, before tax:								
Unrealized gain (loss) on investments and derivatives	\$(0.6)		\$(13.6)		\$1.6		\$(24.4)	
Reclassification adjustment for gains included in net earnings	—		—		—		(3.1)	
Unrealized gain (loss) on investments and derivatives, net	(0.6)		(13.6)		1.6		(27.5)	
Foreign currency translation adjustments	13.4		(94.4)		(14.1)		(45.1)	
Other comprehensive earnings (loss), before tax	12.8		(108.0)		(12.5)		(72.6)	
Provision for income tax expense (benefit) related to items of other comprehensive earnings	(0.1)		(7.9)		(0.4)		(12.6)	
Other comprehensive earnings (loss), net of tax	\$12.9	12.9	\$(100.1)	(100.1)	\$(12.1)	(12.1)	\$(60.0)	(60.0)
Comprehensive earnings		105.3	40.1		324.2		299.1	
Comprehensive (earnings) losses attributable to noncontrolling interest		(3.2)	15.3		(0.6)		5.4	
Comprehensive earnings attributable to FIS		\$102.1	\$55.4		\$323.6		\$304.5	

See accompanying notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statement of Equity

Nine months ended September 30, 2012

(In millions, except per share amounts)

(Unaudited)

	Amount FIS Stockholders					Accumulated			
	Number of shares Common	Treasury shares	Common stock	paid in capital	Retained earnings	comprehensive earnings	Treasury stock	Noncontrolling interest	Total equity
Balances, December 31, 2011	384.6	(91.7)	\$3.8	\$7,224.7	\$1,880.4	\$ 36.3	\$(2,642.2)	\$ 148.2	\$6,651.2
Exercise of stock options and stock purchase right	—	8.3	—	(77.8)	—	—	246.7	—	168.9
Treasury shares held for taxes due upon exercise of stock options	—	(0.3)	—	—	—	—	(8.6)	—	(8.6)
Excess income tax benefit from exercise of stock options	—	—	—	11.4	—	—	—	—	11.4
Stock-based compensation	—	—	—	60.5	—	—	—	—	60.5
Cash dividends paid (\$0.20 per share per quarter) and other distributions	—	—	—	—	(176.4)	—	—	(3.7)	(180.1)
Purchases of treasury stock	—	(8.3)	—	—	—	—	(250.8)	—	(250.8)
Net earnings	—	—	—	—	324.5	—	—	11.8	336.3
Other comprehensive earnings	—	—	—	—	—	(0.9)	—	(11.2)	(12.1)
Balances, September 30, 2012	384.6	(92.0)	\$3.8	\$7,218.8	\$2,028.5	\$ 35.4	\$(2,654.9)	\$ 145.1	\$6,776.7

See accompanying notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Nine months ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net earnings	\$336.3	\$359.1
Adjustment to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	473.2	471.6
Amortization of debt issue costs	27.0	10.6
Gain on sale of assets	(22.0))
Stock-based compensation	60.5	46.0
Deferred income taxes	(28.9)	) (13.2)
Excess income tax benefit from exercise of stock options	(11.4)	) (7.2)
Other operating activities, net	2.1	(4.5)
Net changes in assets and liabilities, net of effects from acquisitions and foreign currency:		
Trade receivables	(40.7)	) 31.4
Settlement activity	(16.1)	) 68.9
Prepaid expenses and other assets	(24.4)	) (5.7)
Deferred contract costs	(49.7)	) (46.6)
Deferred revenue	(54.6)	) (42.6)
Accounts payable, accrued liabilities, and other liabilities	66.7	(68.7)
Net cash provided by operating activities	718.0	799.1
Cash flows from investing activities:		
Additions to property and equipment	(96.9)	) (88.2)
Additions to computer software	(129.4)	) (133.6)
Net proceeds from sale of assets	336.5	—
Acquisitions, net of cash acquired	(40.0)	) (12.7)
Other investing activities, net	(3.0)	) 5.9
Net cash provided by (used in) investing activities	67.2	(228.6)
Cash flows from financing activities:		
Borrowings	8,886.0	6,908.9
Repayment of borrowings	(9,165.4)	) (7,266.5)
Debt issuance costs	(47.6))
Excess income tax benefit from exercise of stock options	11.4	7.2
Proceeds from exercise of stock options, net of tax withholding	160.3	72.0
Treasury stock purchases	(285.8)	) (188.5)
Dividends paid	(176.4)	) (48.0)
Other financing activities, net	(5.8)	) 1.5
Net cash used in financing activities	(623.3)	) (513.4)
Effect of foreign currency exchange rate changes on cash	(0.8)) (8.3)
Net increase (decrease) in cash and cash equivalents	161.1	48.8

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Cash and cash equivalents, beginning of period	415.5	338.0
Cash and cash equivalents, end of period	\$576.6	\$386.8
Supplemental cash flow information:		
Cash paid for interest	\$182.9	\$222.6
Cash paid for income taxes	\$157.6	\$165.9
See accompanying notes to unaudited condensed consolidated financial statements.		

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FIDELITY NATIONAL INFORMATION SERVICES, INC.
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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” are to Fidelity National Information Services, Inc., a Georgia corporation, and its subsidiaries; all references to “Metavante” are to Metavante Technologies, Inc., and its subsidiaries, as acquired by FIS on October 1, 2009; and all references to “Capco” are to The Capital Markets Company N.V., as acquired by FIS on December 2, 2010.

(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, 2011. The preparation of these Condensed Consolidated Financial Statements (Unaudited) 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 (Unaudited) and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. Certain reclassifications have been made in the 2011 Condensed Consolidated Financial Statements (Unaudited) to conform to the classifications used in 2012. 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) 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 and nine months ended September 30, 2012 and 2011, is as follows (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Banco Bradesco Brazilian Venture revenue	\$72.8	\$80.2	\$215.3	\$221.8
Banco Bradesco item processing revenue	—	—	—	1.3
FNF data processing services revenue	9.6	9.5	30.2	33.9
Ceridian data processing and services revenue	27.2	16.5	74.0	43.5
Total related party revenues	\$109.6	\$106.2	\$319.5	\$300.5

A detail of related party items included in selling, general and administrative expenses (net of expense reimbursements) for the three and nine months ended September 30, 2012 and 2011, is as follows (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Administrative corporate support and other services with FNF	\$1.3	\$1.1	\$3.4	\$3.5
Employee benefits services with Ceridian	0.1	0.1	0.6	0.2
Total related party expenses	\$1.4	\$1.2	\$4.0	\$3.7

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FIDELITY NATIONAL INFORMATION SERVICES, INC.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Brazilian Venture

The Company operates a venture ("Brazilian Venture") with Banco Bradesco S.A. ("Banco Bradesco") in which we own a 51% controlling interest, to provide comprehensive, fully outsourced card processing services to Brazilian card issuers, including Banco Bradesco. The Brazilian Venture currently processes approximately 50.0 million cards for clients in Brazil and provides call center, cardholder support and collection services for their card portfolios.

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 Vice Chairman of the Board of Directors of FIS is currently the Chairman of the Board of Directors of FNF. Our agreement with FNF runs through September 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). We also incur expenses for amounts paid by us to FNF under cost-sharing agreements to use certain corporate aircraft.

Ceridian

We provide data processing services to Ceridian Corporation ("Ceridian") and Ceridian provides us with outsourced employee benefits services. FNF holds an approximate 33% equity interest in Ceridian.

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.

(3) Unaudited Net Earnings per Share

The basic weighted average shares and common stock equivalents for the three and nine months ended September 30, 2012 and 2011 are computed using the treasury stock method.

The following table summarizes the earnings per share attributable to FIS common stockholders for the three and nine months ended September 30, 2012 and 2011 (in millions, except per share amounts):

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Earnings from continuing operations attributable to FIS, net of tax	\$ 147.8	\$ 143.4	\$ 395.1	\$ 363.5
Earnings (loss) from discontinued operations attributable to FIS, net of tax				