

FISERV INC  
Form 10-Q  
October 27, 2016  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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, 2016

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 Number 0-14948

FISERV, INC.  
(Exact Name of Registrant as Specified in Its Charter)

WISCONSIN 39-1506125  
(State or Other Jurisdiction of (I. R. S. Employer  
Incorporation or Organization) Identification No.)  
255 FISERV DRIVE, BROOKFIELD, WI 53045  
(Address of Principal Executive Offices) (Zip Code)  
(262) 879-5000  
(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 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  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 21, 2016, there were 217,057,326 shares of common stock, \$.01 par value, of the registrant outstanding.



Table of Contents

INDEX

	Page
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Income</u>	<u>1</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>2</u>
<u>Consolidated Balance Sheets</u>	<u>3</u>
<u>Consolidated Statements of Cash Flows</u>	<u>4</u>
<u>Notes to Consolidated Financial Statements</u>	<u>5</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>11</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>19</u>
Item 4. <u>Controls and Procedures</u>	<u>19</u>
<u>PART II – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>20</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>20</u>
Item 6. <u>Exhibits</u>	<u>20</u>
<u>Signatures</u>	
<u>Exhibit Index</u>	

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Fiserv, Inc.

Consolidated Statements of Income

(In millions, except per share data)

(Unaudited)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2015	2016	2015	2016
Revenue:				
Processing and services	\$1,125	\$1,160	\$3,301	\$3,441
Product	188	220	585	633
Total revenue	1,313	1,380	3,886	4,074
Expenses:				
Cost of processing and services	541	551	1,625	1,651
Cost of product	172	186	521	547
Selling, general and administrative	258	274	758	806
Total expenses	971	1,011	2,904	3,004
Operating income	342	369	982	1,070
Interest expense	(41 )	(41 )	(131 )	(121 )
Interest and investment (loss) income, net	—	—	1	(7 )
Loss on early debt extinguishment	—	—	(85 )	—
Income before income taxes and income from investment in unconsolidated affiliate	301	328	767	942
Income tax provision	(117 )	(114 )	(279 )	(373 )
Income from investment in unconsolidated affiliate	34	—	35	146
Net income	\$218	\$214	\$523	\$715
Net income per share – basic	\$0.94	\$0.98	\$2.22	\$3.23
Net income per share – diluted	\$0.92	\$0.96	\$2.18	\$3.18
Shares used in computing net income per share:				
Basic	232.9	219.2	236.0	221.6
Diluted	237.0	222.7	240.1	225.2
See accompanying notes to consolidated financial statements.				

Table of Contents

Fiserv, Inc.

Consolidated Statements of Comprehensive Income

(In millions)

(Unaudited)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Net income	\$214	\$218	\$715	\$523
Other comprehensive income (loss):				
Fair market value adjustment on cash flow hedges, net of income tax benefit of \$1 million	—	(1 )	—	(1 )
Reclassification adjustment for net realized losses on cash flow hedges included in interest expense, net of income tax provision of \$1 million, \$1 million, \$3 million and \$6 million	2	2	5	9
Foreign currency translation	3	(10 )	—	(20 )
Total other comprehensive income (loss)	5	(9 )	5	(12 )
Comprehensive income	\$219	\$209	\$720	\$511

See accompanying notes to consolidated financial statements.

2

Table of Contents

Fiserv, Inc.

Consolidated Balance Sheets

(In millions)

(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 303	\$ 275
Trade accounts receivable, net	830	802
Prepaid expenses and other current assets	467	429
Total current assets	1,600	1,506
Property and equipment, net	403	396
Intangible assets, net	1,868	1,872
Goodwill	5,375	5,200
Other long-term assets	391	366
Total assets	\$ 9,637	\$ 9,340
Liabilities and Shareholders' Equity		
Accounts payable and accrued expenses	\$ 1,129	\$ 1,024
Current maturities of long-term debt	6	5
Deferred revenue	413	473
Total current liabilities	1,548	1,502
Long-term debt	4,624	4,288
Deferred income taxes	742	726
Other long-term liabilities	154	164
Total liabilities	7,068	6,680
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value: 25.0 million shares authorized; none issued	—	—
Common stock, \$0.01 par value: 900.0 million shares authorized; 395.7 million shares issued	4	4
Additional paid-in capital	1,001	952
Accumulated other comprehensive loss	(69)	(74)
Retained earnings	8,779	8,064
Treasury stock, at cost, 177.9 million and 170.4 million shares	(7,146)	(6,286)
Total shareholders' equity	2,569	2,660
Total liabilities and shareholders' equity	\$ 9,637	\$ 9,340
See accompanying notes to consolidated financial statements.		

Table of Contents

Fiserv, Inc.

Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Nine Months Ended September 30, 2016 2015	
Cash flows from operating activities:		
Net income	\$715	\$523
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	187	163
Amortization of acquisition-related intangible assets	119	149
Share-based compensation	54	51
Excess tax benefits from share-based awards	(46 )	(34 )
Deferred income taxes	7	(2 )
Income from investment in unconsolidated affiliate	(146 )	(35 )
Dividends from unconsolidated affiliate	140	36
Non-cash impairment charges	17	4
Loss on early debt extinguishment	—	85
Other operating activities	(2 )	3
Changes in assets and liabilities, net of effects from acquisitions:		
Trade accounts receivable	(15 )	16
Prepaid expenses and other assets	(40 )	(64 )
Accounts payable and other liabilities	111	135
Deferred revenue	(59 )	(75 )
Net cash provided by operating activities	1,042	955
Cash flows from investing activities:		
Capital expenditures, including capitalization of software costs	(223 )	(292 )
Payments for acquisitions of businesses	(265 )	—
Other investing activities	2	(4 )
Net cash used in investing activities	(486 )	(296 )
Cash flows from financing activities:		
Debt proceeds	1,711	2,392
Debt repayments, including redemption and other costs	(1,380)	(2,058)
Proceeds from issuance of treasury stock	65	60
Purchases of treasury stock, including employee shares withheld for tax obligations	(970 )	(1,066)
Excess tax benefits from share-based awards	46	34
Other financing activities	—	(6 )
Net cash used in financing activities	(528 )	(644 )
Net change in cash and cash equivalents	28	15
Cash and cash equivalents, beginning balance	275	294
Cash and cash equivalents, ending balance	\$303	\$309
See accompanying notes to consolidated financial statements.		

Table of Contents

Fiserv, Inc.

Notes to Consolidated Financial Statements  
(Unaudited)

1. Basis of Presentation

The consolidated financial statements for the three-month and nine-month periods ended September 30, 2016 and 2015 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial statements have been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year. The consolidated financial statements and accompanying notes are presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and accompanying notes of Fiserv, Inc. (the “Company”). These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Principles of Consolidation

The consolidated financial statements include the accounts of Fiserv, Inc. and all 100% owned subsidiaries. Investments in less than 50% owned affiliates in which the Company has significant influence but not control are accounted for using the equity method of accounting. All intercompany transactions and balances have been eliminated in consolidation.

2. Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which adds or clarifies guidance on the presentation and classification of eight specific types of cash receipts and cash payments in the statement of cash flows, with the intent of reducing diversity in practice. For public entities, ASU 2016-15 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. Entities must apply the guidance retrospectively to all periods presented; however, entities may apply prospectively if retrospective application is impracticable. The Company is currently assessing the impact that the adoption of ASU 2016-15 will have on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) (“ASU 2016-13”), which prescribes an impairment model for most financial assets based on expected losses rather than incurred losses. Under this model, an estimate of expected credit losses over the contractual life of the instrument is to be recorded as of the end of a reporting period as an allowance to offset the amortized cost basis, resulting in a net presentation of the amount expected to be collected on the financial asset. For public entities, ASU 2016-13 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For most instruments, entities must apply the standard using a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact that the adoption of ASU 2016-13 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which simplifies several aspects of the accounting for share-based payment awards, including the accounting for income taxes and forfeitures, as well as classification in the statement of cash flows. The standard requires that all tax effects related to share-based payments be recorded as income tax expense or benefit in the income statement at settlement or expiration and, accordingly, excess tax benefits and tax deficiencies be presented as operating activities in the statement of cash flows. For public entities, ASU 2016-09 is effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods, with early adoption permitted in any interim or annual period for which financial statements have not yet been issued. The recognition of all excess tax benefits and tax deficiencies in the income statement, as well as related changes to the computation of diluted earnings per share, is to be applied prospectively. Entities may elect to apply the change in presentation in the statement of cash flows either prospectively or retrospectively to all periods presented. The impact of adopting this standard on the Company’s consolidated financial statements is dependent upon the intrinsic value of share-based compensation awards at the time of exercise or vesting and may result in more

variability in effective tax rates and net earnings and may also impact the dilution of common stock equivalents. During the three and nine months ended September 30, 2016 and 2015, the Company recorded \$5 million and \$4 million, and \$42 million and \$38 million, respectively, to consolidated equity as excess tax benefits from share-based compensation awards. The Company expects to adopt ASU 2016-09 in January 2017.

Table of Contents

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), which requires lessees to recognize a lease liability and a right-of-use asset for each lease with a term longer than twelve months. The recognized liability is measured at the present value of lease payments not yet paid, and the corresponding asset represents the lessee’s right to use the underlying asset over the lease term and is based on the liability, subject to certain adjustments. For income statement purposes, the standard retains the dual model with leases classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. For public entities, ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The standard requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently assessing the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements of financial instruments. For public entities, ASU 2016-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted for certain provisions of the standard. Entities must apply the standard, with certain exceptions, using a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact that the adoption of ASU 2016-01 will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), to clarify the principles of recognizing revenue and to create common revenue recognition guidance between U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This model involves a five-step process for achieving that core principle, along with comprehensive disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In July 2015, the FASB deferred the effective date of the new revenue standard for one year and will permit early adoption as of the original effective date in ASU 2014-09. For public entities, the standard is effective for annual and interim periods beginning after December 15, 2017. Entities have the option of using either a full retrospective or a modified approach to adopt this new guidance. The Company is currently assessing the impact that the adoption of ASU 2014-09 will have on its consolidated financial statements.

### 3. Fair Value Measurements

The Company applies fair value accounting for all assets and liabilities that are recognized or disclosed at fair value in its consolidated financial statements on a recurring basis. Fair value represents the amount that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability.

The fair values of cash equivalents, trade accounts receivable, settlement assets and obligations, and accounts payable approximate their respective carrying values due to the short period of time to maturity. The estimated fair value of total debt was \$4.9 billion at September 30, 2016 and \$4.3 billion at December 31, 2015, and was based on quoted prices in inactive markets for the Company’s senior notes (level 2 of the fair value hierarchy) and discounted cash flows based on the Company’s current incremental borrowing rate for its term loan (level 3 of the fair value hierarchy). The fair value of the Company’s revolving credit facility borrowings approximates carrying value as the underlying interest rate is variable based on LIBOR.

### 4. Acquisitions

On January 15, 2016, the Company acquired Hewlett Packard Enterprise's Convenience Pay Services business, which enables providers to accept electronic payments from their consumers through multiple channels, thereby expanding the Company's biller solution offerings. On March 3, 2016, the Company completed its purchase of certain assets of ACI Worldwide, Inc.'s Community Financial Services business, further enhancing the Company's suite of digital banking and payments solutions.

The Company acquired these businesses for an aggregate purchase price of \$265 million. During the third quarter of 2016, the Company finalized the purchase price allocations based upon final valuations of intangible assets. The final purchase price allocations for these acquisitions did not materially change from the preliminary allocations and resulted in technology and customer intangible assets totaling approximately \$80 million, goodwill of approximately \$175 million, and other identifiable net assets of approximately \$10 million. The goodwill, recognized within the Payments and Industry Products ("Payments")

Table of Contents

segment, from these transactions is deductible for tax purposes and is primarily attributed to synergies and anticipated revenue and earnings growth associated with the products and services that these businesses provide.

The results of operations for these acquired businesses have been included in the accompanying consolidated statements of income from the dates of acquisition. As a result of these acquisitions, the Company has incurred merger and integration costs, including a \$10 million non-cash impairment charge in the first quarter of 2016 related to the Company's decision to replace existing software with an acquired solution. The related impairment charge was recorded in cost of processing and services within Corporate and Other as such amount is excluded from the Company's measure of the Payments segment's operating performance. Pro forma information for these acquisitions is not provided because they did not have a material effect on the Company's consolidated results of operations.

#### 5. Investment in Unconsolidated Affiliate

The Company owns a 49% interest in StoneRiver Group, L.P. ("StoneRiver"), which is accounted for as an equity method investment, and reports its share of StoneRiver's net income as income from investment in unconsolidated affiliate. During the first quarter of 2016, StoneRiver recognized a gain on the sale of a business interest in which the Company's pre-tax share of this gain was \$190 million. During the first quarter of 2016, the Company also received cash dividends of \$140 million from StoneRiver, which were funded from the sale transaction and recorded as reductions in the Company's investment in StoneRiver. In conjunction with this activity, the Company evaluated its equity method investment in StoneRiver for its ability to recover the remaining carrying amount of such investment. Utilizing a discounted cash flow analysis (level 3 of the fair value hierarchy) to arrive at a measure of the investment's fair value, the Company recognized an impairment loss of \$44 million. The Company's \$146 million pre-tax share of the gain, net of the impairment loss was recorded within income from investment in unconsolidated affiliate, with the related tax expense of \$54 million recorded through the income tax provision, in the consolidated statements of income.

During the three months ended September 30, 2015, StoneRiver recognized a gain on the sale of a subsidiary business. The Company's \$32 million pre-tax share of the gain and related expenses was recorded within income from investment in unconsolidated affiliate, with the related tax expense of \$14 million recorded through the income tax provision, in the consolidated statements of income. During the three months ended September 30, 2015, the Company received cash dividends of \$36 million from StoneRiver, which were funded from the sale transaction and recorded as reductions in the Company's investment in StoneRiver.

The Company's investment in StoneRiver was \$22 million and \$17 million at September 30, 2016 and December 31, 2015, respectively, and is reported within other long-term assets in the consolidated balance sheets. The dividends, in their entirety, represented returns on the Company's investment and are reported in cash flows from operating activities.

#### 6. Share-Based Compensation

The Company recognized \$15 million and \$54 million of share-based compensation expense during the three and nine months ended September 30, 2016, respectively, and \$15 million and \$51 million of share-based compensation expense during the three and nine months ended September 30, 2015, respectively. The Company's annual grant of share-based awards generally occurs in the first quarter. During the nine months ended September 30, 2016, the Company granted 0.9 million stock options and 0.5 million restricted and performance-based stock units at weighted-average estimated fair values of \$31.43 and \$98.24, respectively. During the nine months ended September 30, 2015, the Company granted 1.1 million stock options and 0.3 million restricted stock units at weighted-average estimated fair values of \$25.50 and \$79.20, respectively. During the nine months ended September 30, 2016 and 2015, stock options to purchase 1.6 million and 1.9 million shares, respectively, were exercised.

#### 7. Shares Used in Computing Net Income Per Share

The computation of shares used in calculating basic and diluted net income per common share is as follows:

Three	Nine
Months	Months
Ended	Ended
September	September

Edgar Filing: FISERV INC - Form 10-Q

(In millions)	30,	30,	30,	30,
	2016	2015	2016	2015
Weighted-average common shares outstanding used for the calculation of net income per share – basic	219.2	232.9	221.6	236.0
Common stock equivalents	3.5	4.1	3.6	4.1
Weighted-average common shares outstanding used for the calculation of net income per share – diluted	222.7	237.0	225.2	240.1

7

---

Table of Contents

For the three months ended September 30, 2016 and 2015, stock options for 0.9 million and 1.0 million shares, respectively, were excluded from the calculation of diluted weighted-average outstanding shares because their impact was anti-dilutive. For the nine months ended September 30, 2016 and 2015, stock options for 0.8 million and 0.9 million shares, respectively, were excluded from the calculation of diluted weighted-average outstanding shares because their impact was anti-dilutive.

## 8. Intangible Assets

Intangible assets consisted of the following:

(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
September 30, 2016			
Customer related intangible assets	\$ 2,201	\$ 1,012	\$ 1,189
Acquired software and technology	508	427	81
Trade names	117	56	61
Capitalized software development costs	631	227	404
Purchased software	226	93	133
Total	\$ 3,683	\$ 1,815	\$ 1,868
(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
December 31, 2015			
Customer related intangible assets	\$ 2,155	\$ 922	\$ 1,233
Acquired software and technology	488	413	75
Trade names	120	53	67
Capitalized software development costs	575	199	376
Purchased software	256	135	121
Total	\$ 3,594	\$ 1,722	\$ 1,872

The Company estimates that annual amortization expense with respect to acquired intangible assets, which include customer related intangible assets, acquired software and technology, and trade names, will be approximately \$160 million in 2016, \$150 million in 2017, \$140 million in each of 2018 and 2019, and \$120 million in 2020. Annual amortization expense in 2016 with respect to capitalized and purchased software is estimated to approximate \$130 million.

## 9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

(In millions)	September 30, December 31,	
	2016	2015
Trade accounts payable	\$ 73	\$ 74
Client deposits	387	330
Settlement obligations	247	224
Accrued compensation and benefits	149	196
Other accrued expenses	273	200
Total	\$ 1,129	\$ 1,024

Table of Contents

## 10. Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss by component, net of income taxes, consisted of the following:

(In millions)	Cash Flow Hedges	Foreign Currency Translation	Other	Total
Balance at December 31, 2015	\$ (31 )	\$ (41 )	\$ (2 )	\$(74)
Amounts reclassified from accumulated other comprehensive loss	5	—	—	5
Net current-period other comprehensive income	5	—	—	5
Balance at September 30, 2016	\$ (26 )	\$ (41 )	\$ (2 )	\$(69)

(In millions)	Cash Flow Hedges	Foreign Currency Translation	Other	Total
Balance at December 31, 2014	\$ (41 )	\$ (20 )	\$ (2 )	\$(63)
Other comprehensive loss before reclassifications	(1 )	(20 )	—	(21 )
Amounts reclassified from accumulated other comprehensive loss	9	—	—	9
Net current-period other comprehensive (loss) income	8	(20 )	—	(12 )
Balance at September 30, 2015	\$ (33 )	\$ (40 )	\$ (2 )	\$(75)

Based on the amounts recorded in accumulated other comprehensive loss at September 30, 2016, the Company estimates that it will recognize approximately \$12 million in interest expense during the next twelve months related to settled interest rate hedge contracts.

The Company has entered into foreign currency forward exchange contracts, which have been designated as cash flow hedges, to hedge foreign currency exposure to the Indian Rupee. As of September 30, 2016, the notional amount of these derivatives was approximately \$84 million, and the fair value totaling approximately \$2 million is reported in prepaid expenses and other current assets in the consolidated balance sheet. As of December 31, 2015, the notional amount of these derivatives was approximately \$85 million, and the fair value totaling approximately \$1 million is reported in accounts payable and accrued expenses in the consolidated balance sheet.

## 11. Cash Flow Information

Supplemental cash flow information was as follows:

(In millions)	Nine Months Ended September 30,	
	2016	2015
Interest paid	\$ 79	\$ 78
Income taxes paid	306	222
Treasury stock purchases settled after the balance sheet date	18	38

Table of Contents

## 12. Business Segment Information

The Company's operations are comprised of the Payments segment and the Financial Institution Services ("Financial") segment. The Payments segment primarily provides debit and credit card processing and services, electronic bill payment and presentment services, internet and mobile banking software and services, person-to-person payment services, and other electronic payments software and services. The businesses in this segment also provide card and print personalization services, investment account processing services for separately managed accounts, and fraud and risk management products and services. The Financial segment provides banks, thrifts, credit unions, and leasing and finance companies with account processing services, item processing and source capture services, loan origination and servicing products, cash management and consulting services, and other products and services that support numerous types of financial transactions. Corporate and Other primarily consists of unallocated corporate expenses including share-based compensation, amortization of acquisition-related intangible assets, intercompany eliminations and other costs that are not considered when management evaluates segment performance.

(In millions)	Payments	Financial	Corporate and Other	Total
<b>Three Months Ended September 30, 2016</b>				
Processing and services revenue	\$ 589	\$ 570	\$ 1	\$1,160
Product revenue	183	53	(16 )	220
Total revenue	\$ 772	\$ 623	\$ (15 )	\$1,380
Operating income	\$ 241	\$ 209	\$ (81 )	\$369
<b>Three Months Ended September 30, 2015</b>				
Processing and services revenue	\$ 554	\$ 572	\$ (1 )	\$1,125
Product revenue	160	40	(12 )	188
Total revenue	\$ 714	\$ 612	\$ (13 )	\$1,313
Operating income	\$ 217	\$ 218	\$ (93 )	\$342
<b>Nine Months Ended September 30, 2016</b>				
Processing and services revenue	\$ 1,736	\$ 1,701	\$ 4	\$3,441
Product revenue	548	133	(48 )	633
Total revenue	\$ 2,284	\$ 1,834	\$ (44 )	\$4,074
Operating income	\$ 703	\$ 606	\$ (239 )	\$1,070
<b>Nine Months Ended September 30, 2015</b>				
Processing and services revenue	\$ 1,610	\$ 1,694	\$ (3 )	\$3,301
Product revenue	501	119	(35 )	585
Total revenue	\$ 2,111	\$ 1,813	\$ (38 )	\$3,886
Operating income	\$ 616	\$ 631	\$ (265 )	\$982

Goodwill in the Payments segment was \$3.6 billion and \$3.4 billion as of September 30, 2016 and December 31, 2015, respectively. Goodwill in the Financial segment was \$1.8 billion at both September 30, 2016 and December 31, 2015.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This quarterly report contains "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include those that express a plan, belief, expectation, estimation, anticipation, intent, contingency, future development or similar expression, and can generally be identified as forward-looking because they include words such as "believes," "anticipates," "expects," "could," "should" or words of similar meaning. Statements that describe our future plans, objectives or goals are also forward-looking statements. The forward-looking statements in this report involve significant risks and uncertainties, and a number of factors, both foreseen and unforeseen, could cause actual results to differ materially from our current expectations. The factors that may affect our results include, among others: pricing and other actions by competitors; the capacity of our technology to keep pace with a rapidly evolving marketplace; the impact of market and economic conditions on the financial services industry; the impact of a security breach or operational failure on our business; the effect of legislative and regulatory actions in the United States and internationally; our ability to comply with government regulations; our ability to successfully identify, complete and integrate acquisitions, and to realize the anticipated benefits associated with the same; the impact of our strategic initiatives; and other factors identified in our Annual Report on Form 10-K for the year ended December 31, 2015 and in other documents that we file with the Securities and Exchange Commission. You should consider these factors carefully in evaluating forward-looking statements and are cautioned not to place undue reliance on such statements, which speak only as of the date of this report. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this report.

Management's discussion and analysis of financial condition and results of operations is provided as a supplement to our unaudited consolidated financial statements and accompanying notes to help provide an understanding of our financial condition, the changes in our financial condition and our results of operations. Our discussion is organized as follows:

**Overview.** This section contains background information on our company and the services and products that we provide, our enterprise priorities and the trends affecting our industry in order to provide context for management's discussion and analysis of our financial condition and results of operations.

**Results of operations.** This section contains an analysis of our results of operations presented in the accompanying unaudited consolidated statements of income by comparing the results for the three and nine months ended September 30, 2016 to the comparable period in 2015.

**Liquidity and capital resources.** This section provides an analysis of our cash flows and a discussion of our outstanding debt as of September 30, 2016.

Overview

Company Background

We are a leading global provider of financial services technology. We provide account processing systems, electronic payments processing products and services, internet and mobile banking systems, and related services. We serve approximately 13,000 clients worldwide, including banks, thrifts, credit unions, investment management firms, leasing and finance companies, retailers, merchants, mutual savings banks, and building societies. The majority of our revenue is generated from recurring account- and transaction-based fees under contracts that generally have terms of three to five years and high renewal rates. Most of the services we provide are necessary for our clients to operate their businesses and are, therefore, non-discretionary in nature.

Our operations are principally located in the United States and are comprised of the Payments and Industry Products ("Payments") segment and the Financial Institution Services ("Financial") segment. The Payments segment primarily provides debit and credit card processing and services, electronic bill payment and presentment services, internet and mobile banking software and services, person-to-person payment services, and other electronic payments software and

services. Our businesses in this segment also provide card and print personalization services, investment account processing services for separately managed accounts, and fraud and risk management products and services. The Financial segment provides banks, thrifts, credit unions, and leasing and finance companies with account processing services, item processing and source capture services, loan origination and servicing products, cash management and consulting services, and other products and services that support numerous types of financial transactions. Corporate and Other primarily consists of unallocated corporate expenses including

## Table of Contents

share-based compensation, amortization of acquisition-related intangible assets, intercompany eliminations and other costs that are not considered when management evaluates segment performance.

During the first quarter of 2016, we acquired two businesses for an aggregate purchase price of \$265 million. In January 2016, we acquired Hewlett Packard Enterprise's Convenience Pay Services business, which enables providers to accept electronic payments from their consumers through multiple channels, thereby expanding our biller solution offerings. In March 2016, we completed our purchase of certain assets of ACI Worldwide, Inc.'s Community Financial Services business, further enhancing our suite of digital banking and payments solutions.

During the first quarter of 2016, StoneRiver Group, L.P. ("StoneRiver"), a joint venture in which we own a 49% interest and account for under the equity method, recognized a net gain on the sale of a business interest. Our pre-tax share of the net gain on this transaction was \$146 million, with related tax expense of \$54 million. In addition, we received cash dividends from StoneRiver, funded from the sale transaction, of \$140 million during the first quarter of 2016.

### Enterprise Priorities

We continue to implement a series of strategic initiatives to help accomplish our mission of providing integrated technology and services solutions that enable best-in-class results for our clients. These strategic initiatives include active portfolio management of our various businesses, enhancing the overall value of our existing client relationships, improving operational effectiveness, being disciplined in our allocation of capital, and differentiating our products and services through innovation. Our key enterprise priorities for 2016 are: (i) to continue to build high-quality revenue while meeting our earnings goals; (ii) to build and enhance client relationships with an emphasis on digital and payment solutions; and (iii) to deliver innovation and integration which enables differentiated value for our clients.

### Industry Trends

The market for products and services offered by financial institutions continues to evolve rapidly. The financial industry regularly introduces and implements new payment, deposit, lending, investment and risk management products, and the distinctions among the products and services traditionally offered by different types of financial institutions continue to narrow as they seek to serve the same customers. At the same time, regulatory conditions have continued to create a challenging operating environment for financial institutions. In particular, legislation such as the Dodd-Frank Wall Street Reform and Consumer Protection Act has generated, and will continue to generate, numerous new regulations that will impact the financial industry. These conditions, along with mild economic improvement, have created heightened interest in solutions that help financial institutions win and retain customers, generate incremental revenue, comply with regulations and enhance operating efficiency. Examples of these solutions include our electronic payments solutions and channels such as internet, mobile and tablet banking, sometimes referred to as "digital channels."

This increased focus on digital channels by both financial institutions and their customers, as well as the growing volume and types of payment transactions in the marketplace, have increased the data and transaction processing needs of financial institutions. We expect that financial institutions will continue to invest significant capital and human resources to process transactions, manage information and offer innovative new services to their customers in this rapidly evolving and competitive environment. We anticipate that we will benefit over the long term from the trend of financial institutions moving from in-house technology to outsourced solutions as they seek to remain current on technology changes amidst an evolving marketplace. We believe that economies of scale in developing and maintaining the infrastructure, technology, products, services and networks necessary to be competitive in such an environment are essential to justify these investments, and we anticipate that demand for products that facilitate customer interaction with financial institutions, including electronic transactions through digital channels, will continue to increase, which we expect to create revenue opportunities for us. Based on these market conditions, we believe that our sizable and diverse client base, combined with our position as a leading provider of non-discretionary, recurring revenue-based products and services, gives us a solid foundation for growth. Furthermore, we believe that the integration of our products and services creates a compelling value proposition for our clients.

In addition to the trends described above, the financial institutions marketplace has experienced change in composition as well. During the past 25 years, the number of financial institutions in the United States has declined at a relatively steady rate of approximately 3% per year, primarily as a result of voluntary mergers and acquisitions. Rather than reducing the overall market, these consolidations have transferred accounts among financial institutions.

An acquisition benefits us when a newly combined institution is processed on our system, or elects to move to one of our systems, and negatively impacts us when a competing system is selected. Financial institution acquisitions also impact our financial results due to early contract termination fees in our multi-year client contracts, which are primarily generated when an existing client with a multi-year contract is acquired by another financial institution. These fees can vary from period to period based on the number and size of clients that are acquired and how early in the contract term the contract is terminated. Our revenue is diversified, and our focus on long-term client relationships and recurring, transaction-oriented products and services has reduced the impact that

Table of Contents

consolidation in the financial services industry has had on us. We have clients that span the entire range of financial institutions in terms of asset size and business model, and our 50 largest financial institution clients represent less than 25% of our annual revenue. In addition, we believe that our products and services can assist financial institutions with the regulatory and market challenges that they currently face by providing, among other things, new sources of revenue and opportunities to reduce their costs.

13

---

Table of Contents

## Results of Operations

The following table presents certain amounts included in our consolidated statements of income, the relative percentage that those amounts represent to revenue and the change in those amounts from year to year. This information should be read together with the unaudited consolidated financial statements and accompanying notes.

(In millions)	Three Months Ended September 30,							
	2016	2015	Percentage of		Increase (Decrease)			
			Revenue (1)		\$	%		
			2016	2015				
Revenue:								
Processing and services	\$1,160	\$1,125	84.1 %	85.7 %	\$ 35	3	%	
Product	220	188	15.9 %	14.3 %	32	17	%	
Total revenue	1,380	1,313	100.0 %	100.0 %	67	5	%	
Expenses:								
Cost of processing and services	551	541	47.5 %	48.1 %	10	2	%	
Cost of product	186	172	84.5 %	91.5 %	14	8	%	
Sub-total	737	713	53.4 %	54.3 %	24	3	%	
Selling, general and administrative	274	258	19.9 %	19.6 %	16	6	%	
Total expenses	1,011	971	73.2 %	74.0 %	40	4	%	
Operating income	369	342	26.8 %	26.0 %	27	8	%	
Interest expense	(41 )	(41 )	(3.0 )%	(3.1 )%	—	—		
Income before income taxes and income from investment in unconsolidated affiliate	\$328	\$301	23.8 %	22.9 %	\$ 27	9	%	

(In millions)	Nine Months Ended September 30,							
	2016	2015	Percentage of		Increase (Decrease)			
			Revenue (1)		\$	%		
			2016	2015				
Revenue:								
Processing and services	\$3,441	\$3,301	84.5 %	84.9 %	\$ 140	4	%	
Product	633	585	15.5 %	15.1 %	48	8	%	
Total revenue	4,074	3,886	100.0 %	100.0 %	188	5	%	
Expenses:								
Cost of processing and services	1,651	1,625	48.0 %	49.2 %	26	2	%	
Cost of product	547	521	86.4 %	89.1 %	26	5	%	
Sub-total	2,198	2,146	54.0 %	55.2 %	52	2	%	
Selling, general and administrative	806	758	19.8 %	19.5 %	48	6	%	
Total expenses	3,004	2,904	73.7 %	74.7 %	100	3	%	
Operating income	1,070	982	26.3 %	25.3 %	88	9	%	
Interest expense	(121 )	(131 )	(3.0 )%	(3.4 )%	(10 )	(8 )	%	
Interest and investment (loss) income, net	(7 )	1	(0.2 )%	—	(8 )	(800 )	%	
Loss on early debt extinguishment	—	(85 )	—	(2.2 )%	(85 )	(100 )	%	
Income before income taxes and income from investment in unconsolidated affiliate	\$942	\$767	23.1 %	19.7 %	\$ 175	23	%	

Percentage of revenue is calculated as the relevant revenue, expense, income or loss amount divided by total (1) revenue, except for cost of processing and services and cost of product amounts which are divided by the related component of revenue.



Table of Contents

(In millions)	Three Months Ended September 30,			
	Payments	Financial	Corporate and Other	Total
Total revenue:				
2016	\$772	\$623	\$ (15 )	\$1,380
2015	714	612	(13 )	1,313
Revenue growth	\$58	\$11	\$ (2 )	\$67
Revenue growth percentage	8 %	2 %		5 %
Operating income:				
2016	\$241	\$209	\$ (81 )	\$369
2015	217	218	(93 )	342
Operating income growth	\$24	\$(9 )	\$ 12	\$27
Operating income growth percentage	11 %	(4 )%		8 %
Operating margin:				
2016	31.2 %	33.5 %		26.8 %
2015	30.4 %	35.6 %		26.0 %
Operating margin growth (1)	80 bps	(210 ) bps		80 bps

(In millions)	Nine Months Ended September 30,			
	Payments	Financial	Corporate and Other	Total
Total revenue:				
2016	\$2,284	\$1,834	\$ (44 )	\$4,074
2015	2,111	1,813	(38 )	3,886
Revenue growth	\$173	\$21	\$ (6 )	\$188
Revenue growth percentage	8 %	1 %		5 %
Operating income:				
2016	\$703	\$606	\$ (239 )	\$1,070
2015	616	631	(265 )	982
Operating income growth	\$87	\$(25 )	\$ 26	\$88
Operating income growth percentage	14 %	(4 )%		9 %
Operating margin:				
2016	30.8 %	33.1 %		26.3 %
2015	29.2 %	34.8 %		25.3 %
Operating margin growth (1)	160 bps	(170 ) bps		100 bps

(1) Represents the basis point growth or decline in operating margin.

Total Revenue

Total revenue increased \$67 million and \$188 million in the third quarter and first nine months of 2016, respectively, or 5% in each period, compared to the prior periods in 2015, primarily driven by revenue growth in our Payments segment.

Revenue in our Payments segment increased \$58 million and \$173 million during the third quarter and first nine months of 2016, respectively, or 8% in each period, compared to the prior periods in 2015. Payments segment revenue growth was driven by our recurring revenue businesses as processing and services revenue increased \$35 million, or 6%, and \$126 million, or 8%, in the third quarter and first nine months of 2016, respectively, over the prior year periods. This growth was primarily due to new client additions and increased transaction volumes from existing clients in our card services and electronic payments businesses, as well as revenue from acquired businesses of \$24 million and \$62 million in the third quarter and first nine months of 2016, respectively. In addition, product revenue increased \$23 million, or 14%, and \$47 million, or 9%, in the third



Table of Contents

quarter and first nine months of 2016, respectively, compared to the prior periods in 2015, primarily due to increased volumes in our output solutions business, including a higher level of card manufacturing and personalization. Revenue in our Financial segment increased \$11 million, or 2%, and \$21 million, or 1%, in the third quarter and first nine months of 2016, respectively, compared to the prior periods in 2015. An increase in software license revenue, along with increased volumes in our lending solutions business, were largely offset by lower contract termination fees in both the third quarter and first nine months of 2016.

**Total Expenses**

Total expenses increased \$40 million, or 4%, and \$100 million, or 3%, in the third quarter and first nine months of 2016, respectively, compared to the prior periods in 2015. Total expenses as a percentage of total revenue decreased 80 basis points to 73.2% in the third quarter of 2016 and decreased 100 basis points to 73.7% in the first nine months of 2016 compared to the prior year periods.

Cost of processing and services as a percentage of processing and services revenue decreased to 47.5% in the third quarter of 2016 compared to 48.1% in the third quarter of 2015 and decreased to 48.0% in the first nine months of 2016 compared to 49.2% in the first nine months of 2015. Cost of processing and services as a percentage of processing and services revenue was favorably impacted by increased operating leverage in our recurring revenue businesses, as well as by operating efficiency initiatives across the company that benefited our overall cost structure. Cost of product as a percentage of product revenue decreased to 84.5% in the third quarter of 2016 compared to 91.5% in the third quarter of 2015 and decreased to 86.4% in the first nine months of 2016 compared to 89.1% in the first nine months of 2015. Cost of product as a percentage of product revenue was favorably impacted by an increase in higher-margin software license revenue, along with volume growth and product mix in our output solutions business as compared to the prior year periods.

Selling, general and administrative expenses as a percentage of total revenue was generally consistent for the third quarter of 2016 at 19.9% compared to 19.6% in the third quarter of 2015 and for the first nine months of 2016 at 19.8% compared to 19.5% in the first nine months of 2015.

**Operating Income and Operating Margin**

Total operating income increased \$27 million, or 8%, and \$88 million, or 9%, in the third quarter and first nine months of 2016, respectively, compared to the prior periods in 2015. Total operating margin increased 80 basis points to 26.8% in the third quarter of 2016 and increased 100 basis points to 26.3% in the first nine months of 2016 compared to the prior year periods. Operating income and operating margin improvements in 2016 were driven by revenue growth, expense discipline and operational effectiveness initiatives.

Operating income in our Payments segment increased \$24 million, or 11%, and \$87 million, or 14%, in the third quarter and first nine months of 2016, respectively, compared to the prior periods in 2015. Operating margin increased 80 basis points to 31.2% in the third quarter of 2016 and 160 basis points to 30.8% in the first nine months of 2016 compared to the prior year periods. The increases in operating income and operating margin in 2016 were primarily due to revenue growth and scale efficiencies in our card services and electronic payments businesses, along with increased volumes and product mix in our output solutions business, which included a higher level of card manufacturing and personalization.

Operating income in our Financial segment decreased \$9 million and \$25 million in the third quarter and first nine months of 2016, respectively, or 4% in each period, compared to the prior periods in 2015. Operating margin decreased 210 basis points to 33.5% in the third quarter of 2016 and 170 basis points to 33.1% in the first nine months of 2016 compared to the prior year periods. Operating income and operating margin in 2016 were negatively impacted by product mix, including lower contract termination fees, and increased expenses associated with incremental investments in innovation-based solutions.

The operating loss in Corporate and Other improved by \$12 million and \$26 million in the third quarter and first nine months of 2016, respectively, compared to the prior year periods primarily due to lower amortization related to certain fully amortized acquisition-related intangible assets, partially offset by acquisition and related integration costs in 2016, including a \$10 million non-cash impairment charge associated with the decision to replace an existing software solution with software purchased in a business acquisition during the first quarter.



Table of Contents

Interest Expense

Interest expense was consistent in the third quarter of 2016 compared to the third quarter of 2015. Interest expense decreased \$10 million or 8%, in the first nine months of 2016 compared to the prior period in 2015 primarily due to the reclassification of \$7 million to interest expense for unamortized losses on settled cash flow hedges related to the early extinguishment of debt during the second quarter of 2015.

Interest and Investment (Loss) Income

The net interest and investment loss in the first nine months of 2016 was attributable to a non-cash write-off of a \$7 million cost-method investment.

Loss on Early Debt Extinguishment

In May 2015, we redeemed our \$600 million aggregate principal amount of 3.125% senior notes due in 2016 and \$500 million aggregate principal amount of 6.8% senior notes due in 2017, which resulted in a pre-tax loss on early debt extinguishment of \$85 million related to make-whole payments and other costs associated with the redemption.

Income Tax Provision

Income tax provision as a percentage of income before income from investment in unconsolidated affiliate was 34.8% and 38.7% in the third quarter of 2016 and 2015, respectively, and was 39.6% and 36.3% in the first nine months of 2016 and 2015, respectively. The lower rate in the third quarter of 2016 and higher rate during the first nine months of 2016 were primarily due to the level of income tax expense associated with our share of the net gains on the sales by StoneRiver of a business interest in the first quarter of 2016 and a subsidiary business in the third quarter of 2015.

Income from Investment in Unconsolidated Affiliate

Our share of StoneRiver's net income increased by \$111 million in the first nine months of 2016 compared to 2015 primarily due to our share of the net gains on the sales by StoneRiver of a business interest in the first quarter of 2016 and a subsidiary business in the third quarter of 2015 of \$146 million and \$32 million, respectively.

Net Income Per Share – Diluted

Net income per share-diluted was \$0.96 and \$0.92 in the third quarter of 2016 and 2015, respectively, and was \$3.18 and \$2.18 in the first nine months of 2016 and 2015, respectively. Net income per share-diluted was favorably impacted by \$0.39 per share in the first nine months of 2016 due to our share of the net gain on the sale of a business interest at StoneRiver, partially offset by the non-cash investment write-off, and by \$0.08 per share in the third quarter and first nine months of 2015 due to our share of the net gain on the sale of a subsidiary business at StoneRiver. Amortization of acquisition-related intangible assets reduced net income per share-diluted by \$0.11 and \$0.14 per share in the third quarter of 2016 and 2015, respectively, and by \$0.34 and \$0.40 per share in the first nine months of 2016 and 2015, respectively. In addition, net income per share-diluted was negatively impacted by debt extinguishment and refinancing costs of \$0.25 per share in the first nine months of 2015.

Table of Contents

## Liquidity and Capital Resources

## General

Our primary liquidity needs are: (i) to fund normal operating expenses; (ii) to meet the interest and principal requirements of our outstanding indebtedness; and (iii) to fund capital expenditures and operating lease payments. We believe these needs will be satisfied using cash flow generated by our operations, along with our cash and cash equivalents of \$303 million and available borrowings under our revolving credit facility of \$1.3 billion at September 30, 2016. The following table summarizes our operating cash flow and capital expenditure amounts for the nine months ended September 30, 2016 and 2015, respectively.

(In millions)	Nine Months		Increase (Decrease)	
	Ended	September 30,		
	2016	2015	\$	%
Net income	\$715	\$523	\$ 192	
Depreciation and amortization	306	312	(6 )	
Share-based compensation	54	51	3	
Excess tax benefits from share-based awards	(46 )	(34 )	(12 )	
Deferred income taxes	7	(2 )	9	
Income from investment in unconsolidated affiliate	(146 )	(35 )	(111 )	
Dividends from unconsolidated affiliate	140	36	104	
Non-cash impairment charges	17	4	13	
Loss on early debt extinguishment	—	85	(85 )	
Net changes in working capital and other	(5 )	15	(20 )	
Operating cash flow	\$1,042	\$955	\$ 87	9 %
Capital expenditures	\$223	\$292	\$ (69 )	(24 )%

Our net cash provided by operating activities, or operating cash flow, was \$1.04 billion in the first nine months of 2016, an increase of 9% compared with \$955 million in the first nine months of 2015. This increase was primarily due to improved operating results and cash dividends received from our StoneRiver joint venture, partially offset by unfavorable working capital changes including timing of receivable collections.

Our current policy is to use our operating cash flow primarily to fund capital expenditures, share repurchases and acquisitions and to repay debt rather than to pay dividends. Our capital expenditures were approximately 5% and 8% of our total revenue in the first nine months of 2016 and 2015, respectively. Capital expenditures in 2015 included \$62 million related to our Atlanta facility consolidation, consisting primarily of leasehold improvements and furniture and equipment, of which \$25 million is offset by landlord reimbursements included in net changes in working capital and other.

During the first nine months of 2016, we received cash dividends of \$140 million from our StoneRiver joint venture. These dividends, in their entirety, represented returns on our investment and are reported in cash flows from operating activities. In addition, we acquired Hewlett Packard Enterprise's Convenience Pay Services business and certain assets of ACI Worldwide, Inc.'s Community Financial Services business for an aggregate purchase price of \$265 million during the first nine months of 2016. We funded these acquisitions by utilizing a combination of available cash and existing availability under our revolving credit facility.

We purchased \$933 million of our common stock during the first nine months of 2016. As of September 30, 2016, we had approximately 8.1 million shares remaining under our current share repurchase authorization. Shares repurchased are generally held for issuance in connection with our equity plans.

Table of Contents

## Indebtedness

(In millions)	September 30, December	
	2016	31, 2015
Term loan	\$ 629	\$ 628
Revolving credit facility	715	379
2.7% senior notes due 2020	844	843
4.625% senior notes due 2020	448	448
4.75% senior notes due 2021	398	397
3.5% senior notes due 2022	695	694
3.85% senior notes due 2025	893	893
Other borrowings	8	11
Total debt (including current maturities)	\$ 4,630	\$ 4,293

At September 30, 2016, our debt consisted primarily of \$3.3 billion of senior notes, \$629 million of term loan borrowings and \$715 million of revolving credit facility borrowings. Interest on our senior notes is paid semi-annually. During the first nine months of 2016, we were in compliance with all financial debt covenants.

## Variable Rate Debt

We maintain a term loan and a \$2.0 billion amended and restated revolving credit agreement with a syndicate of banks. Both the term loan and outstanding borrowings under the amended and restated revolving credit facility bear interest at a variable rate based on LIBOR or on a base rate, plus a specified margin based on our long-term debt rating in effect from time to time. The variable interest rate was 1.77% on the term loan borrowings and 1.55% on the amended and restated revolving credit facility borrowings at September 30, 2016. A remaining scheduled principal payment on the term loan of \$90 million is due on December 31, 2017, with the outstanding principal balance of \$540 million due at maturity in October 2018. There are no significant commitment fees and no compensating balance requirements on the amended and restated revolving credit facility, which expires in April 2020. The term loan and amended and restated revolving credit facility contain various, substantially similar restrictions and covenants that require us, among other things, to: (i) limit our consolidated indebtedness as of the end of each fiscal quarter to no more than three and one-half times consolidated net earnings before interest, taxes, depreciation and amortization and certain other adjustments during the period of four fiscal quarters then ended, and (ii) maintain consolidated net earnings before interest, taxes, depreciation and amortization and certain other adjustments of at least three times consolidated interest expense as of the end of each fiscal quarter for the period of four fiscal quarters then ended.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The quantitative and qualitative disclosures about market risk required by this item are incorporated by reference to Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2015 and have not materially changed since December 31, 2015.

**ITEM 4. CONTROLS AND PROCEDURES**

## Evaluation of disclosure controls and procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"), our management, with the participation of our chief executive officer and chief financial officer, evaluated the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2016.

## Changes in internal control over financial reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

In the normal course of business, we and our subsidiaries are named as defendants in lawsuits in which claims are asserted against us. In the opinion of management, the liabilities, if any, which may ultimately result from such lawsuits are not expected to have a material adverse effect on our consolidated financial statements.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth information with respect to purchases made by or on behalf of the company or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Exchange Act) of shares of our common stock during the quarter ended September 30, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1-31, 2016	875,000	\$ 109.94	875,000	10,349,000
August 1-31, 2016	1,355,000	103.99	1,355,000	8,994,000
September 1-30, 2016	912,000	100.51	912,000	8,082,000
Total	3,142,000		3,142,000	

(1) On November 18, 2015, our board of directors authorized the purchase of up to 15.0 million shares of our common stock. This authorization does not expire.

## ITEM 6. EXHIBITS

The exhibits listed in the accompanying exhibit index are filed as part of this Quarterly Report on Form 10-Q.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FISERV, INC.

Date: October 27, 2016 By: /s/ Robert W. Hau  
Robert W. Hau  
Chief Financial Officer and Treasurer

Date: October 27, 2016 By: /s/ Kenneth F. Best  
Kenneth F. Best  
Chief Accounting Officer

---

Table of Contents

Exhibit Index

Exhibit Number	Exhibit Description
31.1	Certification of the Chief Executive Officer, dated October 27, 2016
31.2	Certification of the Chief Financial Officer, dated October 27, 2016
32	Certification of the Chief Executive Officer and Chief Financial Officer, dated October 27, 2016
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

---

Filed with this quarterly report on Form 10-Q are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015, (ii) the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015, (iii) the Consolidated Balance Sheets at September 30, 2016 and December 31, 2015, (iv) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015, and (v) Notes to Consolidated Financial Statements.