

FISERV INC

FORM 10-Q (Quarterly Report)

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**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 **June 30, 2017**

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

(State or Other Jurisdiction of
Incorporation or Organization)

255 FISERV DRIVE, BROOKFIELD, WI

(Address of Principal Executive Offices)

39-1506125

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

53045

(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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 28, 2017, there were 210,465,540 shares of common stock, \$.01 par value, of the registrant outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Fiserv, Inc.
Consolidated Statements of Income
(In millions, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Processing and services	\$ 1,186	\$ 1,159	\$ 2,364	\$ 2,281
Product	200	204	416	413
Total revenue	1,386	1,363	2,780	2,694
Expenses:				
Cost of processing and services	573	547	1,143	1,100
Cost of product	175	180	357	361
Selling, general and administrative	276	274	553	532
Gain on sale of business	(10)	—	(10)	—
Total expenses	1,014	1,001	2,043	1,993
Operating income	372	362	737	701
Interest expense	(44)	(40)	(86)	(80)
Interest and investment income (loss), net	2	—	2	(7)
Income before income taxes and income from investment in unconsolidated affiliate	330	322	653	614
Income tax provision	(109)	(110)	(211)	(259)
Income from investment in unconsolidated affiliate	—	—	26	146
Net income	\$ 221	\$ 212	\$ 468	\$ 501
Net income per share – basic	\$ 1.05	\$ 0.95	\$ 2.20	\$ 2.25
Net income per share – diluted	\$ 1.02	\$ 0.94	\$ 2.15	\$ 2.21
Shares used in computing net income per share:				
Basic	211.8	222.0	213.2	222.8
Diluted	216.3	225.6	217.8	226.5

See accompanying notes to consolidated financial statements.

Fiserv, Inc.
Consolidated Statements of Comprehensive Income
(In millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$ 221	\$ 212	\$ 468	\$ 501
Other comprehensive income (loss):				
Fair market value adjustment on cash flow hedges, net of income tax provision of \$1 million and \$2 million	1	—	3	—
Reclassification adjustment for net realized losses on cash flow hedges included in interest expense, net of income tax provision of \$1 million, \$1 million, \$2 million and \$2 million	1	1	3	3
Foreign currency translation	6	(6)	11	(3)
Total other comprehensive income (loss)	8	(5)	17	—
Comprehensive income	\$ 229	\$ 207	\$ 485	\$ 501

See accompanying notes to consolidated financial statements.

Fiserv, Inc.
Consolidated Balance Sheets
(In millions)
(Unaudited)

	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	\$ 299	\$ 300
Trade accounts receivable, net	845	902
Prepaid expenses and other current assets	488	526
Total current assets	1,632	1,728
Property and equipment, net	396	405
Intangible assets, net	1,807	1,833
Goodwill	5,435	5,373
Other long-term assets	415	404
Total assets	\$ 9,685	\$ 9,743
Liabilities and Shareholders' Equity		
Accounts payable and accrued expenses	\$ 1,148	\$ 1,242
Current maturities of long-term debt	95	95
Deferred revenue	464	483
Total current liabilities	1,707	1,820
Long-term debt	4,646	4,467
Deferred income taxes	773	762
Other long-term liabilities	168	153
Total liabilities	7,294	7,202
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	1,017	1,020
Accumulated other comprehensive loss	(59)	(76)
Retained earnings	9,462	8,994
Treasury stock, at cost, 184.9 million and 180.2 million shares	(8,033)	(7,401)
Total shareholders' equity	2,391	2,541
Total liabilities and shareholders' equity	\$ 9,685	\$ 9,743

See accompanying notes to consolidated financial statements.

Fiserv, Inc.
Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 468	\$ 501
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	137	122
Amortization of acquisition-related intangible assets	78	80
Share-based compensation	33	39
Excess tax benefits from share-based awards	—	(37)
Deferred income taxes	—	5
Income from investment in unconsolidated affiliate	(26)	(146)
Dividends from unconsolidated affiliate	31	140
Non-cash impairment charges	10	17
Gain on sale of business	(10)	—
Other operating activities	(1)	(2)
Changes in assets and liabilities, net of effects from acquisitions:		
Trade accounts receivable	59	3
Prepaid expenses and other assets	(21)	(38)
Accounts payable and other liabilities	(47)	37
Deferred revenue	(20)	(34)
Net cash provided by operating activities	691	687
Cash flows from investing activities:		
Capital expenditures, including capitalization of software costs	(136)	(145)
Payments for acquisitions of businesses, net of cash acquired	(78)	(265)
Proceeds from sale of business	19	—
Other investing activities	1	2
Net cash used in investing activities	(194)	(408)
Cash flows from financing activities:		
Debt proceeds	1,173	1,249
Debt repayments	(1,005)	(991)
Proceeds from issuance of treasury stock	47	47
Purchases of treasury stock, including employee shares withheld for tax obligations	(713)	(633)
Excess tax benefits from share-based awards	—	37
Net cash used in financing activities	(498)	(291)
Net change in cash and cash equivalents	(1)	(12)
Cash and cash equivalents, beginning balance	300	275
Cash and cash equivalents, ending balance	\$ 299	\$ 263

See accompanying notes to consolidated financial statements.

Fiserv, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The consolidated financial statements for the three-month and six-month periods ended June 30, 2017 and 2016 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, 2016 .

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

Recently Adopted Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”), which eliminates Step 2 of the goodwill impairment test that had required a hypothetical purchase price allocation. Rather, entities should apply the same impairment assessment to all reporting units and recognize an impairment loss for the amount by which a reporting unit's carrying amount exceeds its fair value, without exceeding the total amount of goodwill allocated to that reporting unit. Entities will continue to have the option to perform a qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 will be effective prospectively for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, or those beginning after January 1, 2017 if early adopted. The Company early adopted ASU 2017-04 in the first quarter of 2017. The adoption of this ASU did not have any impact on the Company’s consolidated financial statements and is not expected to have a material impact on its consolidated financial statements going forward.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”), which clarifies the definition of a business with the objective of adding guidance and providing a more robust framework to assist reporting organizations with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. For public entities, ASU 2017-01 is effective prospectively for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted for transactions occurring before the issuance or effective date of the standard for which financial statements have not yet been issued. The Company early adopted ASU 2017-01 in the first quarter of 2017, and the adoption did not have a material impact on its consolidated financial statements.

In August 2016, the FASB issued 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 unless retrospective application is impracticable. The Company early adopted ASU 2016-15 in the first quarter of 2017, and the adoption did not have a material impact 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 was effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. 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. The impact of this standard on the Company's consolidated financial statements depends on the intrinsic value of share-based compensation awards at the time of exercise or vesting, may result in more variability in effective tax rates and net earnings, and may impact the dilution of common stock equivalents. The Company adopted ASU 2016-09 effective January 1, 2017. As a result of this adoption, the Company recorded excess tax benefits related to share-based compensation awards of \$6 million and \$31 million during the three and six months ended June 30, 2017, respectively, in the income tax provision, whereas such benefits were previously recognized in equity. The Company elected to apply the change in presentation in the statement of cash flows prospectively, and as a result, excess tax benefits are classified as operating activities when realized through reductions to subsequent tax payments. The treatment of forfeitures did not change as the Company elected to continue its current practice of estimating expected forfeitures.

Recently Issued Accounting Pronouncements

In May 2017, the FASB issued ASU No. 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"), which provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. Under ASU 2017-09, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the award are the same immediately before and after the award is modified. ASU 2017-09 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted in any interim period. Entities must apply the standard prospectively. The Company is currently assessing the impact that the adoption of ASU 2017-09 will have on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16"), which eliminates the current prohibition on immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory, with the intent of reducing complexity and diversity in practice. Under ASU 2016-16, entities must recognize the income tax consequences when the transfer occurs rather than deferring recognition. For public entities, ASU 2016-16 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted as of the beginning of a fiscal year. Entities must apply the guidance on a modified retrospective basis though a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company does not expect the adoption of ASU 2016-16 to have a material impact 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 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 August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, to defer the effective date of the new revenue standard for one year and permit early adoption as of the original effective date in ASU 2014-09. For public entities, the new revenue standard is effective for annual and interim periods beginning after December 15, 2017. The Company plans to adopt ASU 2014-09 on January 1, 2018.

The Company has reviewed the requirements of the new revenue standard and related ASUs and is monitoring the activity of the FASB and the transition resource group as it relates to specific interpretive guidance. The Company is reviewing customer contracts and is in the process of applying the five-step model of the new revenue standard to each of its key identified revenue streams included within either processing and services revenue or product revenue and is comparing the results to its current accounting practices. While the Company continues to assess all potential impacts of adopting this new revenue standard on its consolidated financial statements, related disclosures, and necessary control and process changes, it currently believes the new revenue standard will not have a significant impact on the accounting for stand-ready account- and transaction-based processing fees, the Company’s most significant revenue stream. Areas that the Company currently expects will be impacted by the new revenue standard include the accounting for costs to obtain a contract, such as the capitalization of commissions for sales personnel, which are currently expensed as incurred; the timing of revenue recognition of certain termination fees over the modified contract term, which will generally result in an acceleration of revenue as compared to the Company’s current accounting practice of recognition upon client deconversion; the deferral of professional services revenue from certain transaction processing platform enhancements that are currently recognized as performed; and the expanded qualitative and quantitative disclosures required under the new standard.

Entities have the option of adopting this new guidance using either a full retrospective or a modified approach with the cumulative effect of applying the guidance recognized at the date of initial application. The Company currently anticipates adopting the new standard using the modified retrospective transition approach, which will result in a cumulative effect adjustment to retained earnings as of January 1, 2018. However, a final decision regarding the adoption method is dependent on several factors, including the completion of the Company’s analysis of the effect the adoption of the new standard will have on its results of operations, financial position and related disclosures.

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, accounts payable, and client deposits 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 June 30, 2017 and \$4.7 billion at December 31, 2016, and was based on quoted prices in active markets for the Company’s senior notes (level 1 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. The estimated fair value of the contingent consideration liability of \$15 million at June 30, 2017 (see Note 4) was based on the present value of a probability-weighted assessment approach derived from the likelihood of achieving the various earn-out criteria (level 3 of the fair value hierarchy). This estimated fair value has not changed since the acquisition date.

4. Acquisitions and Dispositions

Acquisitions

On January 17, 2017, the Company completed its acquisition of Online Banking Solutions, Inc. (“OBS”), gaining additional cash management and digital business banking capabilities that complement and enrich the Company’s existing solutions, for a purchase price of \$78 million, net of cash acquired, along with earn-out provisions estimated at a fair value of \$15 million. OBS products are integrated across a number of the Company’s account processing solutions and with other core processing platforms, and should enable its bank and credit union clients to better serve their commercial customers.

During the second quarter of 2017, the Company finalized the purchase price allocation for this acquisition based upon a final valuation of intangible assets. The final purchase price allocation did not materially change from the preliminary allocation and resulted in technology and customer intangible assets totaling \$30 million, goodwill of \$62 million and other identifiable net assets of \$1 million consisting primarily of accounts receivable. The goodwill, recognized within the Financial Institution Services (“Financial”) segment, from this transaction is deductible for tax purposes and is primarily attributed to synergies and anticipated revenue and earnings growth associated with the products and services that this business provides. The results of operations for OBS have been included in the accompanying consolidated statements of income from the acquisition date. Pro forma information is not provided because the acquisition did not have a material effect on the Company’s consolidated results of operations.

In June 2017, the Company made a recommended cash offer to acquire Monitise plc (“Monitise”) for approximately £70 million (\$89 million). The transaction is subject to certain conditions including Monitise shareholder approval. In connection with this pending acquisition, the Company entered into a forward currency contract to hedge its net exposure to the British pound. As of June 30, 2017, the notional amount of this forward currency contract approximated \$69 million, with a fair value of approximately \$1 million recorded to earnings in the consolidated statements of income and prepaid expenses and other current assets in the consolidated balance sheet.

Disposition

On May 11, 2017, the Company sold its Australian item processing business, which was reported within the Financial segment, for approximately \$17 million, consisting of \$19 million in cash received at closing less an estimated closing adjustment of \$2 million anticipated to be finalized in the third quarter of 2017. The Company recognized a gain on the sale of \$10 million, with the related tax expense of \$5 million recorded through the income tax provision, in the consolidated statements of income for the three and six months ended June 30, 2017.

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 2017, StoneRiver recognized a gain on the sale of a business. The Company’s \$26 million pre-tax share of the gain was recorded within income from investment in unconsolidated affiliate, with the related tax expense of \$9 million recorded through the income tax provision, in the consolidated statements of income. During the first quarter of 2017, the Company received cash dividends of \$31 million from StoneRiver, which were funded from the sale transaction and recorded as reductions in the Company’s investment in StoneRiver.

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.

The Company’s investment in StoneRiver was \$9 million and \$14 million at June 30, 2017 and December 31, 2016, 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 \$17 million and \$33 million of share-based compensation expense during the three and six months ended June 30, 2017, respectively, and \$17 million and \$39 million of share-based compensation expense during the three and six months ended June 30, 2016, respectively. The Company's annual grant of share-based awards generally occurs in the first quarter. During the six months ended June 30, 2017 and 2016, stock options to purchase 0.9 million and 1.3 million shares, respectively, were exercised.

A summary of stock option, restricted stock unit and performance share unit grant activity is as follows:

	Six Months Ended June 30,			
	2017		2016	
	Shares Granted (In thousands)	Weighted-Average Grant Date Fair Value	Shares Granted (In thousands)	Weighted-Average Grant Date Fair Value
Stock options	667	\$ 37.27	931	\$ 31.42
Restricted stock units	273	114.07	340	97.01
Performance share units	55	113.82	150	100.68

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:

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	Weighted-average common shares outstanding used for the calculation of net income per share – basic	211.8	222.0	213.2
Common stock equivalents	4.5	3.6	4.6	3.7
Weighted-average common shares outstanding used for the calculation of net income per share – diluted	216.3	225.6	217.8	226.5

For the three months ended June 30, 2017 and 2016, 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. For both the six months ended June 30, 2017 and 2016, stock options for 0.7 million shares 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
June 30, 2017			
Customer related intangible assets	\$ 2,213	\$ 1,105	\$ 1,108
Acquired software and technology	525	445	80
Trade names	117	61	56
Capitalized software development costs	702	265	437
Purchased software	230	104	126
Total	<u>\$ 3,787</u>	<u>\$ 1,980</u>	<u>\$ 1,807</u>

(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
December 31, 2016			
Customer related intangible assets	\$ 2,200	\$ 1,043	\$ 1,157
Acquired software and technology	507	432	75
Trade names	117	57	60
Capitalized software development costs	641	233	408
Purchased software	230	97	133
Total	<u>\$ 3,695</u>	<u>\$ 1,862</u>	<u>\$ 1,833</u>

The Company estimates that annual amortization expense with respect to acquired intangible assets recorded at June 30, 2017, which include customer related intangible assets, acquired software and technology, and trade names, will be approximately \$150 million in each of 2017 and 2018, \$140 million in 2019, \$120 million in 2020, and \$110 million in 2021. Annual amortization expense in 2017 with respect to capitalized and purchased software recorded is estimated to approximate \$150 million.

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

(In millions)	June 30, 2017	December 31, 2016
Trade accounts payable	\$ 85	\$ 110
Client deposits	447	409
Settlement obligations	253	305
Accrued compensation and benefits	134	184
Other accrued expenses	229	234
Total	<u>\$ 1,148</u>	<u>\$ 1,242</u>

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, 2016	\$ (24)	\$ (50)	\$ (2)	\$ (76)
Other comprehensive income before reclassifications	3	11	—	14
Amounts reclassified from accumulated other comprehensive loss	3	—	—	3
Net current-period other comprehensive income	6	11	—	17
Balance at June 30, 2017	\$ (18)	\$ (39)	\$ (2)	\$ (59)

(In millions)	Cash Flow Hedges	Foreign Currency Translation	Other	Total
Balance at December 31, 2015	\$ (31)	\$ (41)	\$ (2)	\$ (74)
Other comprehensive loss before reclassifications	—	(3)	—	(3)
Amounts reclassified from accumulated other comprehensive loss	3	—	—	3
Net current-period other comprehensive income (loss)	3	(3)	—	—
Balance at June 30, 2016	\$ (28)	\$ (44)	\$ (2)	\$ (74)

Based on the amounts recorded in accumulated other comprehensive loss at June 30, 2017, the Company estimates that it will recognize approximately \$7 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 June 30, 2017 and December 31, 2016, the notional amount of these derivatives was approximately \$163 million and \$86 million, respectively, and the fair value totaling approximately \$6 million and \$1 million, respectively, is reported in prepaid expenses and other current assets in the consolidated balance sheet.

11. Cash Flow Information

Supplemental cash flow information was as follows:

(In millions)	Six Months Ended June 30,	
	2017	2016
Interest paid	\$ 77	\$ 72
Income taxes paid	206	203
Treasury stock purchases settled after the balance sheet date	13	24

12. Business Segment Information

The Company's operations are comprised of the Payments and Industry Products ("Payments") segment and the Financial segment. The Payments segment primarily provides electronic bill payment and presentment services, internet and mobile banking software and services, person-to-person payment services, debit and credit card processing and 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 compensation costs, 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
Three Months Ended June 30, 2017				
Processing and services revenue	\$ 602	\$ 582	\$ 2	\$ 1,186
Product revenue	177	41	(18)	200
Total revenue	<u>\$ 779</u>	<u>\$ 623</u>	<u>\$ (16)</u>	<u>\$ 1,386</u>
Operating income	<u>\$ 238</u>	<u>\$ 214</u>	<u>\$ (80)</u>	<u>\$ 372</u>
Three Months Ended June 30, 2016				
Processing and services revenue	\$ 587	\$ 570	\$ 2	\$ 1,159
Product revenue	176	42	(14)	204
Total revenue	<u>\$ 763</u>	<u>\$ 612</u>	<u>\$ (12)</u>	<u>\$ 1,363</u>
Operating income	<u>\$ 237</u>	<u>\$ 202</u>	<u>\$ (77)</u>	<u>\$ 362</u>
Six Months Ended June 30, 2017				
Processing and services revenue	\$ 1,197	\$ 1,162	\$ 5	\$ 2,364
Product revenue	376	81	(41)	416
Total revenue	<u>\$ 1,573</u>	<u>\$ 1,243</u>	<u>\$ (36)</u>	<u>\$ 2,780</u>
Operating income	<u>\$ 497</u>	<u>\$ 410</u>	<u>\$ (170)</u>	<u>\$ 737</u>
Six Months Ended June 30, 2016				
Processing and services revenue	\$ 1,147	\$ 1,131	\$ 3	\$ 2,281
Product revenue	365	80	(32)	413
Total revenue	<u>\$ 1,512</u>	<u>\$ 1,211</u>	<u>\$ (29)</u>	<u>\$ 2,694</u>
Operating income	<u>\$ 462</u>	<u>\$ 397</u>	<u>\$ (158)</u>	<u>\$ 701</u>

As of both June 30, 2017 and December 31, 2016, goodwill was \$3.6 billion and \$1.8 billion in the Payments and Financial segments, respectively.

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, including with respect to the acquisition of Monitise plc; the impact of our strategic initiatives; and other factors identified in our Annual Report on Form 10-K for the year ended December 31, 2016 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 six months ended June 30, 2017 to the comparable period in 2016 .
- *Liquidity and capital resources.* This section provides an analysis of our cash flows and a discussion of our outstanding debt as of June 30, 2017 .

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 over 12,000 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 electronic bill payment and presentment services, internet and mobile banking software and services, person-to-person payment services, debit and credit card processing and 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 compensation costs, 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 2017, StoneRiver Group, L.P. (“StoneRiver”), a joint venture in which we own a 49% interest and account for under the equity method, recognized a gain on the sale of a business, and in the first quarter of 2016, recognized a net gain on the sale of a business interest. Our pre-tax share of the net gains on these transactions was \$26 million in the first quarter of 2017 and \$146 million in the first quarter of 2016, with related tax expense of \$9 million and \$54 million, respectively. In addition, we received cash dividends from StoneRiver of \$31 million and \$140 million during the first quarter of 2017 and 2016, respectively, which were funded from the sale transactions.

In June 2017, we made a recommended cash offer to acquire Monitise plc (“Monitise”) for approximately £70 million (\$89 million). The transaction is subject to certain conditions including Monitise shareholder approval.

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 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 2017 are: (i) to continue to build high-quality revenue while meeting our earnings goals; (ii) to enhance client relationships with an emphasis on digital and payments 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 and increased focus on cybersecurity have continued to create a challenging operating environment for financial institutions. For example, legislation such as the Dodd-Frank Wall Street Reform and Consumer Protection Act has generated, and may continue to generate, new regulations impacting 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, maintain regulatory compliance 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 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.

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 June 30,					
			Percentage of Revenue (1)		Increase (Decrease)	
	2017	2016	2017	2016	\$	%
Revenue:						
Processing and services	\$ 1,186	\$ 1,159	85.6 %	85.0 %	\$ 27	2 %
Product	200	204	14.4 %	15.0 %	(4)	(2)%
Total revenue	1,386	1,363	100.0 %	100.0 %	23	2 %
Expenses:						
Cost of processing and services	573	547	48.3 %	47.2 %	26	5 %
Cost of product	175	180	87.5 %	88.2 %	(5)	(3)%
Sub-total	748	727	54.0 %	53.3 %	21	3 %
Selling, general and administrative	276	274	19.9 %	20.1 %	2	1 %
Gain on sale of business	(10)	—	(0.7)%	—	10	—
Total expenses	1,014	1,001	73.2 %	73.4 %	13	1 %
Operating income	372	362	26.8 %	26.6 %	10	3 %
Interest expense	(44)	(40)	(3.2)%	(2.9)%	4	10 %
Interest and investment income, net	2	—	0.1 %	—	2	—
Income before income taxes and income from investment in unconsolidated affiliate	\$ 330	\$ 322	23.8 %	23.6 %	\$ 8	2 %
Six Months Ended June 30,						
(In millions)			Percentage of Revenue (1)		Increase (Decrease)	
	2017	2016	2017	2016	\$	%
	Revenue:					
Processing and services	\$ 2,364	\$ 2,281	85.0 %	84.7 %	\$ 83	4 %
Product	416	413	15.0 %	15.3 %	3	1 %
Total revenue	2,780	2,694	100.0 %	100.0 %	86	3 %
Expenses:						
Cost of processing and services	1,143	1,100	48.4 %	48.2 %	43	4 %
Cost of product	357	361	85.8 %	87.4 %	(4)	(1)%
Sub-total	1,500	1,461	54.0 %	54.2 %	39	3 %
Selling, general and administrative	553	532	19.9 %	19.7 %	21	4 %
Gain on sale of business	(10)	—	(0.4)%	—	10	—
Total expenses	2,043	1,993	73.5 %	74.0 %	50	3 %
Operating income	737	701	26.5 %	26.0 %	36	5 %
Interest expense	(86)	(80)	(3.1)%	(3.0)%	6	8 %
Interest and investment income (loss), net	2	(7)	0.1 %	(0.3)%	9	129 %
Income before income taxes and income from investment in unconsolidated affiliate	\$ 653	\$ 614	23.5 %	22.8 %	\$ 39	6 %

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

(In millions)	Three Months Ended June 30,			
	Payments	Financial	Corporate and Other	Total
Total revenue:				
2017	\$ 779	\$ 623	\$ (16)	\$ 1,386
2016	763	612	(12)	1,363
Revenue growth	\$ 16	\$ 11	\$ (4)	\$ 23
Revenue growth percentage	2%	2%		2%
Operating income:				
2017	\$ 238	\$ 214	\$ (80)	\$ 372
2016	237	202	(77)	362
Operating income growth	\$ 1	\$ 12	\$ (3)	\$ 10
Operating income growth percentage	—%	6%		3%
Operating margin:				
2017	30.5%	34.3%		26.8%
2016	31.1%	33.0%		26.6%
Operating margin growth (1)	(60) bps	130 bps		20 bps

(In millions)	Six Months Ended June 30,			
	Payments	Financial	Corporate and Other	Total
Total revenue:				
2017	\$ 1,573	\$ 1,243	\$ (36)	\$ 2,780
2016	1,512	1,211	(29)	2,694
Revenue growth	\$ 61	\$ 32	\$ (7)	\$ 86
Revenue growth percentage	4%	3%		3%
Operating income:				
2017	\$ 497	\$ 410	\$ (170)	\$ 737
2016	462	397	(158)	701
Operating income growth	\$ 35	\$ 13	\$ (12)	\$ 36
Operating income growth percentage	8%	3%		5%
Operating margin:				
2017	31.6%	33.0%		26.5%
2016	30.5%	32.8%		26.0%
Operating margin growth (1)	110 bps	20 bps		50 bps

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

Total Revenue

Total revenue increased \$23 million , or 2% , in the second quarter of 2017 compared to the second quarter of 2016 and increased \$86 million , or 3% , in the first six months of 2017 compared to the first six months of 2016 .

Revenue in our Payments segment increased \$16 million , or 2% , and \$61 million , or 4% , during the second quarter and first six months of 2017 , respectively, compared to the prior periods in 2016 . Revenue growth at our card services business contributed approximately 2% to the Payments segment growth in both the second quarter and first six months of 2017 due to increased transaction volumes. In addition, our investment services business contributed approximately 1% to the Payments segment growth in the first six months of 2017 due to increased license revenue. Revenue from acquired businesses of \$13 million contributed approximately 1% to the Payments segment growth in the first six months of 2017.

Revenue in our Financial segment increased \$11 million , or 2% , and \$32 million , or 3% , during the second quarter and first six months of 2017 , respectively, compared to the prior periods in 2016 , and included revenue from an acquired business of \$4 million in the first six months of 2017. Financial segment revenue growth was primarily attributable to contributions of approximately 2% from our lending solutions business in both the second quarter and first six months of 2017 due to increased volumes, and approximately 1% from our account processing businesses in the first six months of 2017.

Total Expenses

Total expenses increased \$13 million , or 1% , and \$50 million , or 3% , in the second quarter and first six months of 2017 , respectively, compared to the prior periods in 2016 . Total expenses as a percentage of total revenue decreased 20 basis points to 73.2% in the second quarter of 2017 and decreased 50 basis points to 73.5% in the first six months of 2017 compared to the prior year periods. Total expenses were favorably impacted by 70 basis points and 40 basis points in the second quarter and first six months of 2017, respectively, compared to the prior year periods, due to the gain on the sale of our Australian item processing business.

Cost of processing and services as a percentage of processing and services revenue increased to 48.3% in the second quarter of 2017 compared to 47.2% in the second quarter of 2016 and increased to 48.4% in the first six months of 2017 compared to 48.2% in the first six months of 2016 . The increase in cost of processing and services as a percentage of processing and services revenue in 2017 was due to various expense increases across some of our businesses in the second quarter of 2017 as compared to the prior year period, substantially offset by a \$10 million non-cash impairment charge in the first six months of 2016 associated with the decision to replace an existing software solution with software purchased in a business acquisition.

Cost of product as a percentage of product revenue decreased to 87.5% in the second quarter of 2017 compared to 88.2% in the second quarter of 2016 and decreased to 85.8% in the first six months of 2017 compared to 87.4% in the first six months of 2016 . The decrease in cost of product as a percentage of product revenue in 2017 was primarily due to an increase in higher-margin software license revenue.

Selling, general and administrative expenses as a percentage of total revenue was generally consistent for the second quarter of 2017 at 19.9% compared to 20.1% in the second quarter of 2016 and for the first six months of 2017 at 19.9% compared to 19.7% in the first six months of 2016 .

Operating Income and Operating Margin

Total operating income increased \$10 million , or 3% , and \$36 million , or 5% , in the second quarter and first six months of 2017 , respectively, compared to the prior periods in 2016 . Total operating margin increased 20 basis points to 26.8% in the second quarter of 2017 and increased 50 basis points to 26.5% in the first six months of 2017 compared to the prior year periods.

Operating income in our Payments segment increased \$1 million in the second quarter and \$35 million , or 8% , in the first six months of 2017 compared to the prior periods in 2016 . Operating margin decreased 60 basis points to 30.5% in the second quarter of 2017 and increased 110 basis points to 31.6% in the first six months of 2017 compared to the prior year periods. Payments segment operating margin was negatively impacted by approximately 200 basis points during the second quarter of 2017 and by approximately 100 basis points during the first six months of 2017 related to a \$15 million charge associated with two projects that were ended including a \$10 million write-off of previously capitalized costs. Payments segment operating margin was positively impacted by approximately 50 basis points in the second quarter of 2017 and approximately 90 basis points in the first six months of 2017 from scalable revenue growth in our card services business. In addition, higher margin revenue mix contributed approximately 70 basis points to Payments segment operating margin in both the second quarter and first six months of 2017 compared to the prior year periods.

Operating income in our Financial segment increased \$12 million , or 6% , and \$13 million , or 3% , in the second quarter and first six months of 2017 , respectively, compared to the prior periods in 2016 . Operating margin increased 130 basis points to 34.3% in the second quarter of 2017 and increased 20 basis points to 33.0% in the first six months of 2017 compared to the prior year periods. Financial segment operating margin was positively impacted by approximately 80 basis points in the second quarter of 2017 and by approximately 70 basis points in the first six months of 2017 from revenue growth in our lending solutions business. For the first six months of 2017, this was partially offset by approximately 60 basis points from increased variable compensation expenses, primarily consisting of commissions related to higher sales performance.

The operating loss in Corporate and Other increased by \$3 million and \$12 million in the second quarter and first six months of 2017 , respectively, compared to the prior year periods primarily due to increased severance costs of \$3 million and \$11 million, respectively, as well as increased acquisition and related integration costs of \$8 million and \$5 million, respectively. These

increased costs were partially offset by a \$10 million gain on the sale of our Australian item processing business in the second quarter of 2017.

Interest Expense

Interest expense increased \$4 million, or 10%, and \$6 million, or 8%, in the second quarter and first six months of 2017, respectively, compared to the prior periods in 2016. Higher average variable interest rates contributed to increased interest expense of approximately \$2 million in the second quarter and approximately \$3 million in the first six months of 2017 compared to the prior periods in 2016. Higher average outstanding debt contributed to increased interest expense of approximately \$1 million in the second quarter and approximately \$2 million in the first six months of 2017 compared to the prior periods in 2016.

Interest and Investment Income (Loss), net

The net interest and investment income in the second quarter and first six months of 2017 was primarily attributable to an unrealized gain on a forward currency hedge related to our pending acquisition of Monitise. The net interest and investment loss in the first six months of 2016 was attributable to a non-cash write-off of a \$7 million cost-method investment.

Income Tax Provision

Income tax provision as a percentage of income before income from investment in unconsolidated affiliate was 32.8% and 34.2% in the second quarter of 2017 and 2016, respectively, and was 32.2% and 42.2% in the first six months of 2017 and 2016, respectively. The rate in the first six months of 2017 included \$31 million of excess tax benefits from share-based compensation awards recognized as a reduction in the income tax provision as a result of the adoption of ASU 2016-09, partially offset by \$9 million of income tax expense associated with our share of the gain on the sale of a business by StoneRiver in the first quarter of 2017. The rate in the first six months of 2016 included \$54 million of income tax expense associated with our share of the net gain on the sale of a business interest by StoneRiver in the first quarter, partially reduced by \$16 million of discrete benefits from the favorable resolution of tax matters.

Income from Investment in Unconsolidated Affiliate

Our share of StoneRiver's net income was \$26 million and \$146 million in the first six months of 2017 and 2016, respectively, and was attributed to the net gains on the disposition of a business and a business interest at StoneRiver.

Net Income Per Share – Diluted

Net income per share-diluted was \$1.02 and \$0.94 in the second quarter of 2017 and 2016, respectively, and was \$2.15 and \$2.21 in the first six months of 2017 and 2016, respectively. Net income per share-diluted was favorably impacted by \$0.08 per share and \$0.39 per share in the first six months of 2017 and 2016, respectively, due to our share of net investment gains, primarily from StoneRiver capital transactions. Amortization of acquisition-related intangible assets reduced net income per share-diluted by \$0.12 and \$0.11 per share in the second quarter of 2017 and 2016, respectively, and by \$0.24 and \$0.23 per share in the first six months of 2017 and 2016, respectively.

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 \$299 million and available borrowings under our revolving credit facility of \$1.2 billion at June 30, 2017 . The following table summarizes our operating cash flow and capital expenditure amounts for the six months ended June 30, 2017 and 2016 , respectively.

(In millions)	Six Months Ended June 30,		Increase (Decrease)	
	2017	2016	\$	%
Net income	\$ 468	\$ 501	\$ (33)	
Depreciation and amortization	215	202	13	
Share-based compensation	33	39	(6)	
Excess tax benefits from share-based awards	—	(37)	37	
Deferred income taxes	—	5	(5)	
Income from investment in unconsolidated affiliate	(26)	(146)	120	
Dividends from unconsolidated affiliate	31	140	(109)	
Non-cash impairment charges	10	17	(7)	
Gain on sale of business	(10)	—	(10)	
Net changes in working capital and other	(30)	(34)	4	
Operating cash flow	\$ 691	\$ 687	\$ 4	1 %
Capital expenditures	\$ 136	\$ 145	\$ (9)	(6)%

Our net cash provided by operating activities, or operating cash flow, was \$691 million in the first six months of 2017 , an increase of 1% compared with \$687 million in the first six months of 2016 . This increase was primarily due to improved operating results, largely offset by \$109 million of lower cash dividends received from our StoneRiver joint venture.

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% of our total revenue in both the first six months of 2017 and 2016 .

During the first six months of 2017 and 2016 , we received cash dividends of \$31 million and \$140 million , respectively, from our StoneRiver joint venture. These dividends, in their entirety, represented returns on our investment and are reported in cash flows from operating activities. During the first six months of 2017, we also acquired Online Banking Solutions, Inc. for a purchase price of \$78 million , net of cash acquired. We funded the acquisition by utilizing a combination of available cash and existing availability under our revolving credit facility.

We purchased \$684 million of our common stock during the first six months of 2017 . As of June 30, 2017 , we had approximately 14.6 million shares remaining under our current share repurchase authorizations. Shares repurchased are generally held for issuance in connection with our equity plans.

Indebtedness

(In millions)	June 30, 2017	December 31, 2016
Revolving credit facility	\$ 819	\$ 647
Term loan	629	629
2.7% senior notes due 2020	845	845
4.625% senior notes due 2020	448	448
4.75% senior notes due 2021	398	398
3.5% senior notes due 2022	695	695
3.85% senior notes due 2025	894	893
Other borrowings	13	7
Total debt (including current maturities)	<u>\$ 4,741</u>	<u>\$ 4,562</u>

At June 30, 2017, our debt consisted primarily of \$3.3 billion of senior notes, \$819 million of revolving credit facility borrowings and \$629 million of term loan borrowings. Interest on our senior notes is paid semi-annually. During the first six months of 2017, we were in compliance with all financial debt covenants.

Variable Rate Debt

We maintain a \$2.0 billion revolving credit agreement and a term loan with a syndicate of banks. Both the outstanding borrowings under the revolving credit facility and the term loan 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 2.29% on the revolving credit facility borrowings and 2.48% on the term loan borrowings at June 30, 2017. There are no significant commitment fees and no compensating balance requirements on the revolving credit facility, which expires in April 2020. A 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. The revolving credit facility and the term loan 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, 2016 and have not materially changed since December 31, 2016.

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 June 30, 2017.

Changes in internal control over financial reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

In the normal course of business, we or 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 June 30, 2017 :

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)
April 1-30, 2017	855,000	\$ 117.17	855,000	16,193,000
May 1-31, 2017	915,000	120.68	915,000	15,278,000
June 1-30, 2017	680,000	124.19	680,000	14,598,000
Total	<u>2,450,000</u>		<u>2,450,000</u>	

(1) On each of November 18, 2015 and November 16, 2016, our board of directors authorized the purchase of up to 15.0 million shares of our common stock. These authorizations do 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.

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: August 2, 2017

By: /s/ Robert W. Hau
Robert W. Hau
Chief Financial Officer and Treasurer

Date: August 2, 2017

By: /s/ Kenneth F. Best
Kenneth F. Best
Chief Accounting Officer

Exhibit Index

<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.1	Form of Amendment to Non-Qualified Stock Option Agreement (Non-Employee Director - LE)
10.2	Form of Non-Qualified Stock Option Agreement (Non-Employee Director - EE)
31.1	Certification of the Chief Executive Officer, dated August 2, 2017
31.2	Certification of the Chief Financial Officer, dated August 2, 2017
32	Certification of the Chief Executive Officer and Chief Financial Officer, dated August 2, 2017
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 six months ended June 30, 2017 and 2016 , (ii) the Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016 , (iii) the Consolidated Balance Sheets at June 30, 2017 and December 31, 2016 , (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 , and (v) Notes to Consolidated Financial Statements.

FISERV, INC.
AMENDMENT TO STOCK OPTION AGREEMENT

This Amendment revises your Non-Qualified Stock Option Agreement(s) (“Option Agreements”) by replacing Sections 6(a) and 6(b) in their entirety with the following:

6. **Termination of Directorship.**

- (a) Vesting. If you cease to be a Director for any reason other than for Cause, the Option may be exercised to the same extent that you were entitled to exercise the Option on the date you ceased to be a Director and had not previously done so, and the unvested Option Shares will immediately terminate and expire.
- (b) Deadline for Exercise.
 - (i) If you cease to be a Director by reason of Retirement, you are (or in the event your Retirement is by reason of your death or Disability resulting in judicial appointment of a guardian ad litem, administrator or other legal representative, the executor or administrator of your estate, any person who shall have acquired the Option through bequest or inheritance or such guardian ad litem, administrator or other legal representative is) entitled to exercise the Option per the terms contained herein within five years following your cessation of service as a Director.
 - (ii) If you cease to be a Director by reason of death or Disability and you are not eligible for Retirement, you are (or in the event of your death or Disability resulting in judicial appointment of a guardian ad litem, administrator or other legal representative, the executor or administrator of your estate, any person who shall have acquired the Option through bequest or inheritance or such guardian ad litem, administrator or other legal representative is) entitled to exercise the Option per the terms contained herein within one year after you cease to be a Director.
 - (iii) Subject to Section 6(d), if you cease to be a Director for any reason other than death, Disability or Retirement, you are entitled to exercise the Option per the terms contained herein within 90 days after you cease to be a Director.
 - (iv) If you die within the exercise period described in subsection (i) above, your executor, the administrator of your estate or your beneficiary may exercise the Option within the longer of (A) one year after your death or (B) five years following your cessation of service as a Director. If you die within the exercise periods described in subsections (ii) and (iii) above, your executor, the administrator of your estate or your beneficiary may exercise the Option within one year after your death.

- (v) “ Retirement ” means the cessation of service as a director for any reason, including death or Disability, other than termination for Cause, on or after the date: (A) you are at least 60 years of age and your age plus years of service to the Company and its subsidiaries is equal to or greater than 70; or (B) you are least 65 years of age.

This amendment shall be effective as of _____. All other terms and conditions set forth in your Option Agreements remain in full force and effect without change.

FISERV, INC.

By _____
Name:
Title:

Agreed and Acknowledged by Participant:

Print Name

Signature

**FISERV, INC. 2007 OMNIBUS INCENTIVE PLAN
NON-QUALIFIED STOCK OPTION AWARD MEMORANDUM
NON-EMPLOYEE DIRECTOR**

Non-Employee Director: [FIRST NAME] [LAST NAME]

Grant Date: [GRANT DATE]

Number of Shares Subject to Option: [NUMBER OF SHARES]

Exercise Price Per Option Share: [EXERCISE PRICE]

Type of Option: Non-Qualified Stock Option

Vesting Schedule: The Option will vest 100% on the earlier of (a) immediately prior to first annual meeting of shareholders after the Grant Date or (b) the first anniversary of the Grant Date.

Expiration Date: 10 years after the Grant Date

Additional terms and conditions of your Award are included in the Non-Qualified Stock Option Agreement (Non-Employee Director). As a condition to your ability to exercise your Option, you must log on to Fidelity's website at www.netbenefits.fidelity.com and accept the terms and conditions of this Award within 120 calendar days of your Award Grant Date. If you do not accept the terms and conditions of this Award within such time at www.netbenefits.fidelity.com, this Award will be forfeited and immediately terminate.

**NON-QUALIFIED STOCK OPTION AGREEMENT -
NON-EMPLOYEE DIRECTOR**

Pursuant to the Fiserv, Inc. 2007 Omnibus Incentive Plan (the "Plan"), Fiserv, Inc., a Wisconsin corporation (the "Company"), has granted you an Option to purchase such number of shares of Company Common Stock (the "Option Shares") as set forth in the Award Memorandum on the terms and conditions set forth in this agreement (this "Agreement"), the Award Memorandum and the terms of the Plan. Capitalized terms used in this Agreement and not defined herein shall have the meanings set forth in the Plan.

In the event of a conflict between the terms of this Agreement or the Award Memorandum and the terms of the Plan, the terms of the Plan shall govern. In the event of a conflict between the terms of this Agreement and the Award Memorandum, the terms of this Agreement shall govern.

1. **Grant Date; Type of Option.** The Option is granted to you on the Grant Date set forth in the Award Memorandum. As a "non-qualified stock option," the Option will not be treated by you or the Company as an incentive stock option as defined in Section 422 of the Code.
2. **Termination of Option.** Your right to exercise the Option and to purchase the Option Shares shall expire and terminate in all events on the earliest of (a) the Expiration Date set forth in the Award Memorandum or (b) the date upon which exercise is no longer permitted pursuant to Section 6 of this Agreement or (c) your failure to accept the terms of this Agreement, the Award Memorandum and the Plan within the time period and in the manner specified in this Agreement.
3. **Exercise Price.** The purchase price to be paid upon the exercise of the Option will be the Exercise Price Per Option Share set forth in the Award Memorandum.
4. **Vesting; Provisions Relating to Exercise.** Once you become entitled to exercise any part of the Option (and to purchase Option Shares) pursuant to the vesting schedule set forth in the Award Memorandum, that right will continue until the date on which the Option expires and terminates. The right to purchase Option Shares under the Option is cumulative, so that if the full number of Option Shares is not purchased in a single transaction, the balance may be purchased at any time or from time to time thereafter during the term of the Option. The Administrator, in its sole discretion, may at any time accelerate the time at which the Option becomes exercisable by you with respect to any Option Shares. The Company may cancel, rescind, suspend, withhold or otherwise limit or restrict any unexpired, unpaid or deferred part of the Option at any time if you are not in compliance with all applicable provisions of this Agreement, the Award Memorandum and the Plan.
5. **Exercise of Option.** To exercise the Option, you must complete the transaction through our administrative agent's website at www.netbenefits.fidelity.com or call its toll free number at (800) 544-9354, specifying the number of Option Shares being purchased as a result of such exercise, and make payment of the full Exercise Price for the Option Shares being purchased. In no event may a fraction of a share be exercised or acquired. You must also pay any taxes or other amounts required to be withheld as provided in Section 13 of this Agreement.
6. **Termination of Directorship.**
 - (a) *Vesting* . If you cease to be a Director for any reason other than for Cause, the Option may be exercised to the same extent that you were entitled to exercise the Option on the date you ceased to be a Director and had not previously done so, and the unvested Option Shares will immediately terminate and expire.
 - (b) *Deadline for Exercise* .
 - (i) If you cease to be a Director by reason of Retirement, you are (or in the event your Retirement is by reason of your death or Disability resulting in judicial appointment of a guardian ad litem, administrator or other legal representative, the executor or administrator of your estate, any person who shall have acquired the Option through bequest or inheritance or such guardian ad litem, administrator or other legal

representative is) entitled to exercise the Option per the terms contained herein within five years following your cessation of service as a Director.

- (ii) If you cease to be a Director by reason of death or Disability and you are not eligible for Retirement, you are (or in the event of your death or Disability resulting in judicial appointment of a guardian ad litem, administrator or other legal representative, the executor or administrator of your estate, any person who shall have acquired the Option through bequest or inheritance or such guardian ad litem, administrator or other legal representative is) entitled to exercise the Option per the terms contained herein within one year after you cease to be a Director.
 - (iii) Subject to Section 6(d), if you cease to be a Director for any reason other than death, Disability or Retirement, you are entitled to exercise the Option per the terms contained herein within 90 days after you cease to be a Director.
 - (iv) If you die within the exercise period described in subsection (i) above, your executor, the administrator of your estate or your beneficiary may exercise the Option within the longer of (A) one year after your death or (B) five years following your cessation of service as a Director. If you die within the exercise periods described in subsections (ii) and (iii) above, your executor, the administrator of your estate or your beneficiary may exercise the Option within one year after your death.
 - (v) “ **Retirement** ” means the cessation of service as a director for any reason, including death or Disability, other than termination for Cause, on or after the date: (A) you are at least 60 years of age and your age plus years of service to the Company and its subsidiaries is equal to or greater than 70; or (B) you are least 65 years of age.
- (c) **Expiration** . Notwithstanding any provision contained in this Section 6 to the contrary, in no event may the Option be exercised to any extent by anyone after the Expiration Date set forth in the Award Memorandum.
 - (d) **Termination for Cause** . If your service as a Director is terminated for Cause, the Option, whether or not vested, shall terminate immediately. In addition, if your service as a Director is terminated other than for Cause but the Administrator later determines that it could have been terminated for Cause if all facts had been known at the time you were terminated, the Option, whether or not vested, will terminate immediately on the date of such determination.
 - (e) **Change of Control** . If a Change of Control of the Company occurs, the provisions of Section 17(c) of the Plan shall apply to the Option.
 - (f) **No Further Obligation** . The Company will have no further obligation to you under this Agreement if the Option ceases to become exercisable as provided herein.
7. **Issuance of Shares** . The Company, or its transfer agent, will issue and deliver the Option Shares to you as soon as practicable after you exercise any part of the Option and pay the Exercise Price Per Option Share and all applicable related withholding taxes, if any. If you die before the Company has distributed any portion of the Option Shares purchased upon exercise, the Company will issue the Option Shares to your estate or in accordance with applicable laws of descent and distribution. The Option Shares will be issued in book entry form, and the Company will not be liable for damages relating to any delays in making an appropriate book entry or any mistakes or errors in the making of the book entry; provided that the Company shall correct any errors caused by it. Any such book entry will be subject to such stop transfer orders and other restrictions as the Company may deem advisable under (a) the Plan and any agreement between you and the Company with respect to the Option Shares, (b) any applicable federal or state laws, and/or (c) the rules, regulations and other requirements of the Securities and Exchange Commission (“ **SEC** ”) or any stock exchange upon which the Option Shares are listed. The Company may cause an appropriate book entry notation to be made with respect to the Option Shares to reference any of the foregoing restrictions.

8. **Non-Transferability of Award** . Except as provided in the Plan, this Agreement and the Award Memorandum, until the Option Shares have been purchased upon exercise of any part of this Option, this Option and the Option Shares issuable upon exercise hereunder and the rights and privileges conferred hereby may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated (by operation of law or otherwise). Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Option, or of any right or privilege conferred hereby, contrary to the provisions of the Plan or of this Agreement, or upon any attempted sale under any execution, attachment or similar process upon the rights and privileges conferred hereby, this Option and the rights and privileges conferred hereby shall immediately become null and void.
9. **Conditions to Issuance of Shares** . The Option Shares issued to you hereunder upon exercise and purchase may be either previously authorized but unissued shares or issued shares which have been reacquired by the Company. The Company shall not be required to issue any Option Shares hereunder prior to fulfillment of all of the following conditions: (a) the admission of such Option Shares to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Option Shares under any state or federal law or under the rulings or regulations of the SEC or any other governmental regulatory body, which the compensation committee of the Board of Directors (the "**Compensation Committee**") shall, in its discretion, deem necessary or advisable; (c) the obtaining of any approval or other clearance from any state or federal governmental agency, which the Compensation Committee shall, in its discretion, determine to be necessary or advisable; (d) the lapse of such reasonable period of time following the exercise of the Option as the Compensation Committee may establish from time to time for reasons of administrative convenience; and (e) your acceptance of the terms and conditions of this Agreement, the Award Memorandum and the Plan within the time period and in the manner specified in this Agreement.
10. **No Rights as Shareholder** . Until you exercise any part of this Option, purchase Option Shares and the Option Shares are issued to you, you shall have no rights as a shareholder of the Company with respect to the Option Shares. Specifically, you understand and agree that you do not have voting rights or the right to receive dividends or any other distributions paid with respect to shares of Company common stock by virtue of this Option or the Option Shares subject hereto.
11. **Addresses for Notices** . Any notice to be given to the Company under the terms of this Agreement shall be addressed to the Company as follows: Corporate Secretary, Fiserv, Inc., 255 Fiserv Drive, Brookfield, WI 53045, or at such other address as the Company may hereafter designate in writing. Any notice to be given to the Director shall be addressed to the Director at the address set forth in the Company's records from time to time.
12. **Captions; Agreement Severable** . Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement. In the event that any provision in this Agreement shall be held invalid or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on, the remaining provisions of this Agreement.
13. **Securities and Tax Representations** .
 - (a) You acknowledge receipt of the prospectus under the Registration Statement on Form S-8 with respect to the Plan filed by the Company with the SEC. You represent and agree that you will comply with all applicable laws and Company policies relating to the Plan, this Agreement, the exercise of the Option and any disposition of the Option Shares, and that upon the acquisition of any Option Shares, you will make or enter into such written representations, warranties and agreements as the Company may reasonably request to comply with applicable securities laws or this Agreement.
 - (b) You represent and warrant that you understand the federal, state and local income tax consequences of the granting of the Option, the exercise of the Option, the purchase of Option Shares, and the subsequent sale or other disposition of any Option Shares. Unless required by law, the Company will not withhold any federal, state or local income taxes in connection with the Option Shares. You understand and agree that you are solely responsible

for the payment of any federal, state or local income tax imposed upon or attributable to you in connection with such exercise, sale or other disposition.

14. **Market Stand-Off** . The Company reserves the right to impose restrictions on dispositions in connection with any underwritten public offering by the Company of its equity securities pursuant to an effective registration statement filed under the Securities Act of 1933, as amended. Upon receipt of written notice from the Company of a trading restriction, you agree that you shall not directly or indirectly sell, make any short sale of, loan, hypothecate, pledge, offer, grant or sell any option or other contract for the purchase of, purchase any option or other contract for the sale of, or otherwise dispose of or transfer or agree to engage in any of the foregoing transactions with respect to, any Option Shares acquired under this Option without the prior written consent of the Company. Such restriction shall be in effect for such period of time following the date of the final prospectus for the offering as may be determined by the Company. In no event, however, shall such period exceed one hundred eighty (180) days.

15. **General Provisions** .

- (a) None of the Plan, this Agreement or the Award Memorandum confers upon you any right to continue to serve as a Director.
- (b) This Agreement, the Award Memorandum and the Plan contain the entire agreement between the Company and you relating to the Option and supersede all prior agreements or understandings relating thereto.
- (c) This Agreement and the Award Memorandum may only be modified, amended or cancelled as provided in the Plan.
- (d) If any one or more provisions of this Agreement or the Award Memorandum is found to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby.
- (e) Any remedies available to the Company under the Plan or this Agreement are cumulative and are in addition to, and are not affected by, the other rights and remedies available to the Company under the Plan, this Agreement, by law or otherwise.
- (f) This Agreement and the Award Memorandum shall be governed by and construed in accordance with the laws of the State of Wisconsin, without regard to conflict of law provisions.
- (g) The Company agrees, and you agree, to be subject to and bound by all of the terms and conditions of the Plan. The Prospectus for the Plan is accessible on the administrative agent's website (www.netbenefits.fidelity.com) in the "forms library" and a paper copy is available upon request.
- (h) During your lifetime, the Option may only be exercised by you or your legal representatives.
- (i) This Agreement and the Award Memorandum shall be binding upon and inure to the benefit of any successor or assign of the Company and to any heir, distributee, executor, administrator or legal representative entitled by law to your rights hereunder.
- (j) You understand that, under the terms of the Plan, this Agreement and the Award Memorandum, the Company may cancel or rescind the Option and/or the Option Shares in certain circumstances.

By selecting the "I accept" box on the website of our administrative agent, you acknowledge your acceptance of, and agreement to be bound by, this Agreement, the Award Memorandum and the Plan.

Your acceptance of the terms of this Agreement, the Award Memorandum and the Plan through our administrative agent's website is a condition to your ability to exercise your Option. You must log on to our administrative agent's website and accept the terms and conditions of this Agreement, the Award Memorandum and the Plan within 120 calendar days of your Award Grant Date. If you do not accept the terms and conditions of this Agreement, the Award Memorandum and the Plan within such time, this Award will be forfeited and immediately terminate.

CERTIFICATIONS

I, Jeffery W. Yabuki, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fiserv, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2017

By: /s/ Jeffery W. Yabuki

Jeffery W. Yabuki

President and Chief Executive Officer

CERTIFICATIONS

I, Robert W. Hau, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fiserv, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2017

By: /s/ Robert W. Hau

Robert W. Hau

Chief Financial Officer and Treasurer

