

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

Management's discussion and analysis of financial condition and results of operations is provided as a supplement to our consolidated financial statements and accompanying footnotes 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:

- *Recent developments* . This section provides a general description of recent events that are important to understanding our results of operations and financial condition.
- *Critical accounting policies* . This section contains a discussion of the accounting policies that we believe are important to our financial condition and results of operations and that require significant judgment and estimates on the part of management in their application. In addition, all of our significant accounting policies, including critical accounting policies, are summarized in Note 1 to the accompanying consolidated financial statements.
- *Recent accounting pronouncements* . This section provides a discussion of recent accounting pronouncements that we believe are important to understanding our results of operations and financial condition.
- *Non-GAAP financial measure*. This section provides a discussion of internal revenue growth, a non-GAAP financial measure that we use in this report.
- *Results of operations* . This section contains an analysis of our results of operations by comparing the results for the year ended December 31, 2008 to the results for the year ended December 31, 2007, and comparing the results for the year ended December 31, 2007 to the results for the year ended December 31, 2006.

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- *Liquidity and capital resources* . This section provides an analysis of our cash flows and a discussion of our outstanding debt and commitments as of December 31, 2008.

## **Recent Developments**

On July 14, 2008, we completed the sale of a 51% interest in substantially all of the businesses in our Insurance Services segment (“Fiserv Insurance”) to Trident IV, LP. We recognized an after-tax loss of \$0.34 per share from the sale. This loss on sale was comprised of a pre-tax loss of \$21 million and an income tax provision of \$34 million (\$0.21 per share) which was incurred on sale due to a significantly lower tax basis in the stock compared to the book basis of the net assets sold. Upon closing, we received cash proceeds of approximately \$500 million and a \$30 million note due in 2018. Our remaining 49% ownership interest in Fiserv Insurance is accounted for using the equity method of accounting whereby our investment was established based on our historical basis, is adjusted for our share of undistributed net income or net loss, and is reported within other long-term assets in our consolidated balance sheet. Beginning on July 15, 2008, we no longer consolidate revenues and expenses of Fiserv Insurance and report our 49% share of net income as a separate line item on our consolidated statement of income.

On February 4, 2008, we completed the first of two transactions to dispose of our Investment Support Services segment (“Fiserv ISS”) by selling Fiserv Trust Company and the accounts of our institutional retirement plan and advisor services operations to TD AMERITRADE Online Holdings, Inc. for approximately \$200 million, net of income taxes and transaction costs. In the second transaction, Robert Beriault Holdings, Inc. has agreed to acquire the remaining accounts and net capital of Fiserv ISS, including the investment administration services business which provides back office and custody services for individual retirement accounts. This portion of the Fiserv ISS disposition remains subject to customary closing conditions and regulatory approval by the FDIC.

On January 10, 2008, we completed the sale of a majority of our health businesses (“Fiserv Health”) to UnitedHealthcare Services, Inc. for approximately \$480 million, net of income taxes and transaction costs. The financial results of Fiserv Health and Fiserv ISS are reported as discontinued operations for all periods presented.

## **Critical Accounting Policies**

### *General*

Our consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires our management to make estimates, judgments and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. We continually evaluate the accounting policies and estimates that we use to prepare our consolidated financial statements. We base our estimates on historical experience and assumptions that we believe are reasonable in light of current circumstances. Actual amounts and results could differ materially from these estimates.

### *Valuation of Goodwill and Acquired Intangible Assets*

We are required to allocate the purchase price of acquired businesses to the assets acquired and liabilities assumed in the transaction at their estimated fair values. The estimates used to determine the fair value of long-lived assets, such as intangible assets, can be complex and require a significant amount of judgment. We use the information available to us to make fair value determinations and engage independent valuation specialists, when necessary, to assist in the fair value determination of significant acquired long-lived assets. We are also required to estimate the useful lives of intangible assets to determine the amount of acquisition-related intangible asset amortization expense to record in future periods. We periodically review the estimated useful lives assigned to our definite-lived intangible assets to determine whether such estimated useful lives continue to be appropriate.

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We review the carrying value of goodwill and indefinite-lived intangible assets for impairment annually and whenever events or changes in circumstances indicate the carrying value may not be recoverable in accordance with Statement of Financial Accounting Standard (“SFAS”) No. 142, *Goodwill and Other Intangible Assets* (“SFAS 142”). SFAS 142 requires us to perform a two-step impairment test on goodwill. First, we compare the fair value of each reporting unit to its carrying value. We determine the fair value of our reporting units based on the present value of estimated future cash flows. If the fair value of a reporting unit exceeds the carrying value of the unit’s net assets, goodwill is not impaired and further testing is not required. If the carrying value of the reporting unit’s net assets exceeds the fair value of the unit, then we perform the second step of the impairment test to determine the implied fair value of the reporting unit’s goodwill and any impairment charge. Additionally, we estimate the fair value of acquired intangible assets with indefinite lives and compare this amount to the underlying carrying value.

Determining the fair value of a reporting unit or acquired intangible assets with indefinite lives involves judgment and the use of significant estimates and assumptions, which include assumptions regarding the revenue growth rates and operating margins used to calculate estimated future cash flows, risk-adjusted discount rates and future economic and market conditions. Our most recent impairment assessment in the fourth quarter of 2008 determined that the carrying values of goodwill and indefinite-lived intangible assets are not impaired. Given the significance of our goodwill and intangible asset balances, an adverse change in fair value could result in an impairment charge, which could be material to our financial statements.

#### *Revenue Recognition*

The majority of our revenues are generated from monthly account and transaction-based fees. Revenue is recognized when the related services have been rendered. Revenues are primarily recognized under service agreements that are long-term in nature, generally three to five years, and that do not require management to make significant judgments or assumptions. Given the nature of our business and the rules governing revenue recognition, our revenue recognition practices do not involve significant estimates that materially affect our results of operations. Additional information about our revenue recognition policies is included in Note 1 to the consolidated financial statements.

#### *Other*

We do not participate in, nor have we created, any off-balance sheet variable interest entities or other off-balance sheet financing, other than operating leases. We use derivative financial instruments for managing our exposure to changes in interest rates, managing our ratio of fixed to floating-rate long-term debt and foreign exchange rate risks. We do not enter into any derivative financial instruments for speculative purposes.

#### **Recent Accounting Pronouncements**

See Note 1 to our consolidated financial statements for a description of recent accounting pronouncements, including the anticipated adoption dates, which is incorporated herein by reference.

#### **Non-GAAP Financial Measure**

In this report, we refer to internal revenue growth percentage, which is a non-GAAP financial measure. We use internal revenue growth percentage to monitor and evaluate our performance, and it is presented in this report because we believe that it allows shareholders to understand the portion of our revenue growth that is attributed to acquired companies as compared to internal revenue growth. This non-GAAP financial measure should not be considered to be a substitute for our reported results prepared in accordance with GAAP. The method that we use to calculate internal revenue growth percentage is not necessarily comparable to similarly titled measures presented by other companies.

Internal revenue growth percentage is measured as the increase or decrease in total revenues for the current period less “acquired revenue from acquisitions” divided by total revenues from the prior period plus “acquired revenue from acquisitions.” “Acquired revenue from acquisitions” represents pre-acquisition revenue of acquired companies for the prior period. Internal revenue growth percentage is calculated as follows:

<u>(In millions)</u>	<u>Years Ended December 31,</u>			
	<u>2008</u>	<u>2007</u>	<u>2007</u>	<u>2006</u>
<b>Financial Segment</b>				
Total revenues	\$ 2,144	\$ 2,050	\$ 2,050	\$ 1,987
Acquired revenue from acquisitions	—	132	—	16
Total	\$ 2,144	\$ 2,182	\$ 2,050	\$ 2,003
Internal revenue growth (decline)	\$ (38)		\$ 47	
Internal revenue growth percentage	)			
	(2%)		2%	
<b>Payments Segment</b>				
Total revenues	\$ 2,131	\$ 1,070	\$ 1,070	\$ 863
Acquired revenue from acquisitions	—	941	—	120
Total	\$ 2,131	\$ 2,011	\$ 1,070	\$ 983
Internal revenue growth	\$ 120		\$ 87	
Internal revenue growth percentage	6%		9%	

## **Results of Operations**

### **Business Segments**

We acquired CheckFree Corporation (“CheckFree”) on December 3, 2007. In connection with the integration of CheckFree and the significant expansion of our payments related businesses, along with associated organizational changes, we reclassified our reporting segments for all periods presented to align them with how our chief operating decision maker currently manages the business. As a result, effective January 1, 2008, our operations consist of the following business segments: Financial Institution Services (“Financial”), Payments and Industry Products (“Payments”), Insurance Services (“Insurance”) and Corporate and Other. The Financial segment provides banks, thrifts and credit unions with account processing services, item processing services, loan origination and servicing products, cash management and consulting services, and other products and services that support numerous types of financial transactions. The Payments segment provides products and services that address a range of technology needs for the financial services industry, including: Internet banking, electronic bill payment, electronic funds transfer and debit processing, fraud and risk management capabilities, card and print personalization services, check imaging, and investment account processing services for separately managed accounts. In 2008, we completed the sale of a 51% interest in substantially all of the businesses in the Insurance segment. The Corporate and Other segment primarily consists of unallocated corporate overhead expenses, amortization of acquisition-related intangible assets and intercompany eliminations.

### **Components of Revenues and Expenses**

The following summary describes the components of revenues and expenses as presented in our consolidated statements of income. A description of our revenue recognition policies is included in Note 1 to the consolidated financial statements.

#### *Processing and Services*

Processing and services revenues, which in 2008 represented 76% of our consolidated revenues, are primarily generated from account and transaction-based fees under contracts that generally have terms of three to five years. Revenue is recognized when the related transactions are processed and services have been rendered. Processing and services revenues are most reflective of our business performance because a significant amount of our total operating profit is generated by these services. Cost of processing and services includes costs directly

associated with providing services to clients and includes the following: personnel; equipment and data communication; infrastructure costs, including costs to maintain applications; client support; depreciation and amortization; and other operating expenses.

### Product

Product revenues, which in 2008 represented 24% of our consolidated revenues, are primarily derived from integrated print and card production, prescription product and software licenses. Prior to our sale of a 51% interest in Fiserv Insurance on July 14, 2008, prescription product revenues were recognized on a gross basis to include the prescription price. Cost of product includes costs directly associated with the products sold and includes the following: costs of materials and prescription products; personnel; infrastructure costs; depreciation and amortization; and other costs directly associated with product revenue.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses primarily consist of: salaries, wages and related expenses paid to sales personnel, administrative employees and management; advertising and promotional costs; depreciation and amortization; and other selling and administrative expenses.

### Results of Operations

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

(In millions)	Years Ended December 31,									
				Percentage of Revenue <sup>(1)</sup>			Increase (Decrease)			
	2008	2007	2006	2008	2007	2006	2008 vs. 2007		2007 vs. 2006	
<b>Revenues:</b>										
Processing and services	\$ 3,616	\$ 2,668	\$ 2,466	76.3%	68.5%	69.6%	\$ 948	36%	\$ 202	8%
Product	1,123	1,229	1,078	23.7%	31.5%	30.4%	(106)	(9%)	151	14%
Total revenues	<u>4,739</u>	<u>3,897</u>	<u>3,544</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>842</u>	<u>22%</u>	<u>353</u>	<u>10%</u>
<b>Expenses:</b>										
Cost of processing and services	2,099	1,639	1,573	58.0%	61.4%	63.8%	460	28%	66	4%
Cost of product	917	979	839	81.7%	79.7%	77.8%	(62)	(6%)	140	17%
Sub-total	3,016	2,618	2,412	63.6%	67.2%	68.1%	398	15%	206	9%
Selling, general and administrative	833	540	465	17.6%	13.9%	13.1%	293	54%	75	16%
Total expenses	<u>3,849</u>	<u>3,158</u>	<u>2,877</u>	<u>81.2%</u>	<u>81.0%</u>	<u>81.2%</u>	<u>691</u>	<u>22%</u>	<u>281</u>	<u>10%</u>
Operating income	890	739	667	18.8%	19.0%	18.8%	151	20%	72	11%
Interest expense	(260)	(76)	(41)	(5.5%)	(2.0%)	(1.2%)	184	242%	35	85%
Interest income	13	7	—	0.3%	0.2%	—	6	86%	7	—
Loss on sale of businesses	(24)	—	—	(0.5%)	—	—	24	—	—	—
Income from continuing operations before income taxes and income from investment in unconsolidated affiliate	<u>\$ 619</u>	<u>\$ 670</u>	<u>\$ 626</u>	<u>13.1%</u>	<u>17.2%</u>	<u>17.7%</u>	<u>\$ (51)</u>	<u>(8%)</u>	<u>\$ 44</u>	<u>7%</u>

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

## Total Revenues

Years Ended December 31,  
(In millions)

	Financial	Payments	Insurance	Corporate and Other	Total
Total revenues:					
2008	\$ 2,144	\$ 2,131	\$ 513	\$ (49)	\$ 4,739
2007	2,050	1,070	804	(27)	3,897
2006	1,987	863	706	(12)	3,544
2008 Revenue growth (decline)	\$ 94	\$ 1,061	\$ (291)	\$ (22)	\$ 842
2008 Revenue growth (decline) percentage	5%	99%	(36%)		22%
2007 Revenue growth (decline)	\$ 63	\$ 207	\$ 98	\$ (15)	\$ 353
2007 Revenue growth (decline) percentage	3%	24%	14%		10%

Total revenues increased \$842 million, or 22%, in 2008 compared to 2007, and \$353 million, or 10%, in 2007 compared to 2006. The increase in total revenues during 2008 compared to 2007 was primarily the result of increased processing and services revenues from our acquisition of CheckFree in December 2007, partially offset by decreased revenues in our Insurance segment as a result of our sale of a 51% interest in Fiserv Insurance in July 2008. As a result of this transaction, the revenues of Fiserv Insurance are no longer included in our consolidated revenues beginning July 15, 2008, but are included for all historical periods. The increase in total revenues during 2007 compared to 2006 was primarily due to increased prescription product revenues in our Insurance segment and increased processing and services revenues from our acquisition of CheckFree.

Revenues in our Financial segment increased \$94 million, or 5%, in 2008 and \$63 million, or 3%, in 2007 compared to the prior year periods. The revenue increase in 2008 compared to 2007 was primarily due to incremental processing and services revenues from our acquisition of CheckFree. The revenue increase in 2007 compared to 2006 was primarily driven by new client growth and increased sales to existing clients in our banking and credit union account processing businesses. Internal revenue declined 2% in our Financial segment during 2008 and increased 2% in 2007. Internal revenues were negatively impacted by three percentage points and one percentage point in 2008 and 2007, respectively, due to the significant downturn in the U.S. mortgage markets which resulted in a decline in home-equity processing revenues of \$70 million and \$23 million in 2008 and 2007, respectively. In addition, the internal revenue growth rate in our Financial segment during 2008 was negatively impacted by slower discretionary spending by our financial institution clients resulting in reduced higher-margin revenue, such as license fees and associated professional services.

Revenues in our Payments segment increased \$1.06 billion, or 99%, in 2008 and \$207 million, or 24%, in 2007 compared to the prior year periods. These increases were primarily due to incremental processing and services revenue from our acquisition of CheckFree. The internal revenue growth percentages in our Payments segment of 6% and 9% in 2008 and 2007, respectively, were primarily driven by new clients and increased transaction volumes from existing clients in our electronic payments businesses, including our expedited bill payment and electronic funds transfer processing businesses, along with solid growth in our output solutions businesses.

Revenues in our Insurance segment decreased \$291 million, or 36%, in 2008 and increased \$98 million, or 14%, in 2007 compared to the prior year periods. Revenues declined in 2008 compared to 2007 primarily due to our sale of a 51% interest in Fiserv Insurance in July 2008. The revenue increase in 2007 compared to 2006 was primarily due to our acquisition of a workers' compensation transaction processing business in the third quarter of 2007, partially offset by a \$33 million decrease in higher-margin flood claims processing revenues.

## Total Expenses

Total expenses increased \$691 million, or 22%, in 2008 and \$281 million, or 10%, in 2007 compared to the prior year periods. The increase in total expenses in 2008 compared to 2007 was primarily due to our acquisition of CheckFree, partially offset by a decrease in expenses in our Insurance segment caused by our sale of a 51% interest in Fiserv Insurance in 2008.

Cost of processing and services as a percentage of processing and services revenue decreased to 58.0% in 2008 from 61.4% in 2007 and 63.8% in 2006. These decreases were primarily due to higher-margin processing revenues associated with our acquisition of CheckFree and overall improvements in operating efficiencies as a result of improved business mix and the implementation of strategic initiatives that lowered our overall cost structure.

Cost of product as a percentage of product revenue increased to 81.7% in 2008 from 79.7% in 2007 and 77.8% in 2006. The increase in 2008 compared to 2007 was primarily due to a \$94 million increase in prescription product costs during the first half of 2008 prior to our sale of a 51% interest in Fiserv Insurance, which generated historical operating margins in the mid-single digits due primarily to the inclusion of prescription product costs in both product revenues and cost of product. In addition, cost of product as a percentage of product revenue in 2008 was negatively impacted by a \$45 million increase in postage pass-through revenue and expenses in our output solutions businesses. The increase in 2007 compared to 2006 was primarily driven by an \$82 million increase in prescription product costs.

Selling, general and administrative expenses increased \$293 million and \$75 million in 2008 and 2007, respectively, compared to the prior year periods and increased as a percentage of revenues to 17.6% in 2008 from 13.9% in 2007 and 13.1% in 2006. The increases in 2008 compared to 2007 were primarily due to our acquisition of CheckFree, partially offset by a decrease in expenses in our Insurance segment resulting from our sale of a 51% interest in that business. As a result of our acquisition of CheckFree, amortization expense for acquired intangible assets included in selling, general and administrative expenses increased by \$79 million in 2008 compared to 2007, and incremental merger costs, including integration project management, retention bonuses and other expenses, were \$37 million and \$8 million in 2008 and 2007, respectively.

## Operating Income and Operating Margin

Years Ended December 31, (In millions)	Financial	Payments	Insurance	Corporate and Other	Total
Operating income:					
2008	\$ 535	\$ 579	\$ 44	\$ (268)	\$ 890
2007	515	253	78	(107)	739
2006	421	202	110	(66)	667
Operating income growth (decline):					
2008	\$ 20	\$ 326	\$ (34)	\$ (161)	\$ 151
2008 percentage	)	)	)	)	)
	4%	129%	(44%)		20%
2007	\$ 94	\$ 51	\$ (32)	\$ (41)	\$ 72
2007 percentage	)	)	)	)	)
	22%	25%	(29%)		11%
Operating margin:					
2008	24.9%	27.2%	8.7%		18.8%
2007	25.1%	23.6%	9.7%		19.0%
2006	21.2%	23.4%	15.6%		18.8%
Operating margin growth (decline): <sup>(1)</sup>					
2008	)	)	)	)	)
	(0.2%)	3.6%	(1.0%)		(0.2%)
2007	)	)	)	)	)
	3.9%	0.2%	(5.9%)		0.2%

(1) Represents the percentage point improvement or decline in operating margin.

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Total operating income increased \$151 million, or 20%, in 2008 compared to 2007. Operating margin decreased 0.2 percentage points to 18.8% in 2008 from 19.0% in 2007. The overall increase in operating income during 2008 was primarily due to our acquisition of CheckFree in December 2007. Our operating margin in 2008 of 18.8% was negatively impacted by an increase in amortization expense for acquired intangible assets and merger and integration costs associated with our acquisition of CheckFree, and by declining operating margins in the Insurance segment. In addition, the strong results in our Payments segment positively impacted overall operating margins, partially offset by the slight negative impact of our Financial segment in 2008.

Total operating income increased \$72 million, or 11%, in 2007 compared to 2006. Operating margin increased 0.2 percentage points to 19.0% in 2007 from 18.8% in 2006. Operating income and margin in 2007 as compared to 2006 were positively impacted by increases in higher-margin revenues in our electronic payments businesses, continued strong operating results in our bank and credit union account processing businesses, the acquisition of CheckFree, and improvements in overall operating efficiencies. These positive factors were partially offset by a decline in operating margin in the Insurance segment, primarily due to a \$33 million decrease in higher-margin flood claims processing revenues.

Operating income in our Financial segment increased \$20 million, or 4%, in 2008 and \$94 million, or 22%, in 2007 compared to the prior year periods. Operating margins were 24.9%, 25.1% and 21.2% in 2008, 2007 and 2006, respectively, and declined 20 basis points in 2008 and increased 390 basis points in 2007. Operating income and margin in 2008 as compared to 2007 were negatively impacted by a \$70 million decline in home-equity processing revenues in our lending business and decreases in higher-margin revenues, such as software license fees and associated professional services. Operating income and margin in 2007 as compared to 2006 increased significantly due primarily to higher-margin revenue growth in our bank and credit union account processing businesses, improved business mix and overall operating efficiencies resulting primarily from the implementation of strategic initiatives that lowered our overall cost structure.

Operating income in our Payments segment increased \$326 million, or 129%, and \$51 million, or 25%, in 2008 and 2007 compared to the prior year periods. Operating margins were 27.2%, 23.6% and 23.4% in 2008, 2007 and 2006, respectively, and increased 360 basis points in 2008 and 20 basis points in 2007. The significant increases in operating income and margin in 2008 compared to 2007 were driven primarily by higher-margin revenues and cost synergies associated with our acquisition of CheckFree, growth in our other electronic payments businesses, such as our expedited bill payment and electronic funds transfer businesses, and improved operating leverage and scale efficiencies in our transaction processing businesses within our Payments segment.

Operating income in our Insurance segment decreased \$34 million, or 44%, in 2008 and \$32 million, or 29%, in 2007 compared to the prior year periods. Operating margins were 8.7%, 9.7% and 15.6% in 2008, 2007 and 2006, respectively, and declined 100 basis points in 2008 and 590 basis points in 2007. The decrease in operating income in 2008 compared to 2007 was primarily due to our sale of a 51% interest in Fiserv Insurance in 2008. The decreases in operating income and margin in 2007 compared to 2006 were primarily due to a \$33 million decrease in higher-margin flood claims processing revenues.

The operating loss in our Corporate and Other segment increased \$161 million in 2008 and \$41 million in 2007 compared to the prior year periods. These increases were primarily due to incremental amortization of acquisition-related intangible assets of \$119 million and \$15 million in 2008 and 2007, respectively, and merger and integration related items associated with our acquisition of CheckFree totaling \$59 million and \$11 million in 2008 and 2007, respectively.

### ***Interest Expense***

Interest expense was \$260 million, \$76 million and \$41 million in 2008, 2007 and 2006, respectively. The increases in interest expense were primarily due to the new senior term loan and senior notes borrowings in the fourth quarter of 2007 to finance our \$4.4 billion acquisition of CheckFree.

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### ***Interest Income***

Interest income was \$13 million, \$7 million and \$0 in 2008, 2007 and 2006, respectively. Interest income in 2008 was primarily earned by investing the proceeds from our business dispositions. Interest income in 2007 was primarily earned by investing the proceeds from the senior notes borrowings during the period from our receipt of the proceeds until we completed the acquisition of CheckFree.

### ***Loss on Sale of Businesses***

In 2008, we recognized a \$24 million pre-tax loss which was primarily due to our sale of a 51% interest in Fiserv Insurance.

### ***Income Tax Provision***

Our effective income tax rate for continuing operations was 45.1% in 2008, 38.2% in 2007 and 37.8% in 2006. The higher effective income tax rate in 2008 was primarily due to a \$34 million income tax provision related to our sale of a 51% interest in Fiserv Insurance which was due to a significantly lower tax basis in the stock compared to the book basis of the net assets sold. The tax provision related to sale of businesses increased the effective income tax rate in 2008 by 6.9 percentage points, from 38.2% to 45.1%. We expect that our income tax rate for continuing operations will be approximately 38.5% in 2009.

### ***Income from Investment in Unconsolidated Affiliate***

Due to our sale of a 51% interest in Fiserv Insurance in July 2008, we record our 49% share of Fiserv Insurance's net income, \$6 million in 2008, as income from investment in unconsolidated affiliate.

### ***Income from Discontinued Operations***

Income from discontinued operations totaled \$223 million, \$25 million and \$60 million in 2008, 2007 and 2006, respectively. The increase in income from discontinued operations in 2008 compared to 2007 was primarily due to after-tax gains of \$230 million related to the sales of a portion of Fiserv ISS and all of Fiserv Health. The decrease in income from discontinued operations in 2007 compared to 2006 was primarily due to sale related expenses.

### ***Net Income Per Share—Diluted***

Net income per share-diluted for 2008 was \$3.49 compared to \$2.60 in 2007 and \$2.53 in 2006. Net income per share-diluted from continuing operations was \$2.12 in 2008 compared to \$2.45 in 2007 and \$2.20 in 2006. Net income per share-diluted from continuing operations in 2008 compared to 2007 was negatively impacted by a \$0.46 per share increase in amortization expense related to acquired intangible assets, a \$0.35 per share after-tax loss on the sale of businesses which includes the sale of a 51% interest in Fiserv Insurance, and \$0.14 per share due to an increase in merger and integration costs associated with our acquisition of CheckFree, partially offset by a decrease in facility shutdown and related costs that were incurred in 2007.

## Liquidity and Capital Resources

Our primary liquidity needs are: (i) to fund normal operating expenses; (ii) to meet the principal and interest requirements of our outstanding indebtedness; and (iii) to fund capital expenditures and operating lease payments. We believe these needs will be satisfied using cash flows generated by operations, our cash and cash equivalents at December 31, 2008 of \$232 million and available borrowings under our revolving credit facility of \$784 million.

(In millions)	Years Ended December 31,		Increase (Decrease)	
	2008	2007	\$	%
Income from continuing operations	\$ 346	\$ 414	\$ (68)	
Depreciation and amortization	362	186	176	
Share-based compensation	34	23	11	
Loss on sale of businesses	24	—	24	
Income from investment in unconsolidated affiliate	(6)	—	(6)	
Settlement of interest rate hedge contracts	—	(30)	30	
Net changes in working capital and other	15	(28)	43	
Operating cash flow	\$ 775	\$ 565	\$ 210	37%

Our net cash provided by operating activities from continuing operations, or operating cash flow, increased \$210 million, or 37%, to \$775 million in 2008 from \$565 million in 2007. This significant increase was primarily due to strong operating cash flow associated with our acquisition of CheckFree and overall improvements in working capital of \$43 million. Depreciation and amortization increased \$176 million in 2008 primarily due to a \$119 million increase in intangible amortization associated with acquisitions. Our current policy is to use our operating cash flow primarily to repay debt and fund capital expenditures, rather than to pay dividends. Our capital expenditures increased \$43 million to \$199 million in 2008 compared to \$156 million in 2007, due primarily to capital expenditures associated with CheckFree. Our capital expenditures were less than 5% of total revenues in 2008.

### Share Repurchases

We purchased \$441 million, \$469 million and \$560 million of our common stock in 2008, 2007 and 2006, respectively. On July 2, 2008, we announced that our board of directors authorized the repurchase of up to 10 million shares of our common stock. Shares repurchased are generally held for issuance in connection with our equity plans. As of December 31, 2008, we had 1.2 million shares remaining under our authorization.

### Indebtedness

(In millions)	December 31,	
	2008	2007
Long-term debt (including current maturities)	\$ 4,105	\$ 5,405

In 2008, we used our operating cash flow and the proceeds from business dispositions primarily to repay \$1.3 billion of debt, which reduced our outstanding debt (including current maturities) to \$4.1 billion at December 31, 2008. Our long-term debt currently consists primarily of \$2.25 billion under our unsecured senior term loan facility, \$1.75 billion under senior notes borrowings, and \$100 million under our \$900 million revolving credit facility. We were in compliance with all debt covenants in 2008.

### Revolving Credit Facility

We maintain a \$900 million unsecured revolving credit facility with a syndicate of banks. The facility bears interest at a variable rate based on LIBOR plus a specified margin or the bank's base rate. There are no significant commitment fees or compensating balance requirements under this facility. The revolving credit

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facility, as amended, contains various restrictions and covenants that require us, among other things, to limit our consolidated indebtedness to no more than a specified multiple (ranging between 3.5 and 4.5) of consolidated net earnings before interest, taxes, depreciation and amortization and certain other adjustments, and to maintain consolidated net earnings before interest, taxes, depreciation and amortization and certain other adjustments of at least three times consolidated interest expense. The facility expires on March 24, 2011. The weighted-average variable interest rate on revolving credit facility borrowings was 1.9% at December 31, 2008. At December 31, 2008, our outstanding borrowings on this facility were \$100 million and available borrowings were \$784 million.

#### *Senior Term Loan*

In December 2007, we borrowed \$2.5 billion under an unsecured senior term loan facility with a syndicate of banks. This term loan bears interest at a variable rate based on LIBOR plus a specified margin or the bank's base rate and matures in November 2012. A scheduled principal payment of \$250 million is due in December 2009, payments of \$375 million are due in December 2010 and 2011, and the remaining principal of \$1.25 billion is due in November 2012. The weighted-average variable interest rate on the term loan borrowings was 2.1% at December 31, 2008. The term loan facility contains various restrictions and covenants substantially similar to those contained in the revolving credit facility described above.

#### *Senior Notes*

In November 2007, we issued \$1.25 billion of 6.125% senior notes due in November 2012 and \$500 million of 6.8% senior notes due in November 2017, which pay interest at the stated rate on May 20 and November 20 of each year. The interest rates applicable to these notes are subject to an increase of up to two percent in the event that our credit rating is downgraded below investment grade. The indenture governing the senior notes contains covenants that, among other matters, limit: our ability to consolidate or merge into, or convey, transfer or lease all or substantially all of our properties and assets to, another person; our ability to create or assume liens; and our ability to engage in sale and leaseback transactions.

#### *Interest Rate Hedge Contracts*

To manage exposure to fluctuations in interest rates, we maintain a series of interest rate swap agreements ("Swaps") with total notional values of \$1.75 billion at December 31, 2008. The Swaps effectively fix interest rates on floating rate term loan borrowings at a weighted-average rate of approximately 4.5% prior to financing spreads and related fees. The Swaps have expiration dates through September 2012.

#### *Shelf Registration Statement*

In 2007, we filed a "shelf" registration statement with the Securities and Exchange Commission. Under the registration statement, we may sell common stock, preferred stock and debt securities, or a combination thereof. Each time we sell securities pursuant to the shelf registration statement, we will provide a prospectus supplement that will contain specific information about the terms of the securities being offered and of the offering. We may offer and sell the securities pursuant to this prospectus from time to time in one or more of the following ways: through underwriters or dealers, through agents, directly to purchasers or through a combination of any of these methods of sales. Proceeds from the sale of these securities may be used to repay indebtedness or for working capital, acquisitions or general corporate purposes.

#### *Other*

Access to capital markets impacts our cost of capital, our ability to refinance maturing indebtedness and our ability to fund future acquisitions. Our ability to access capital on favorable terms depends on various factors, including general market conditions, interest rates, credit ratings on our debt securities, perception of our potential future earnings and the market price of our common stock. As of December 31, 2008, we had a credit rating of Baa2 with a stable outlook from Moody's Investors Service, Inc. ("Moody's") and BBB with a negative outlook from Standard & Poor's Ratings Services ("S&P") on our senior unsecured debt securities.

The interest rate payable on our senior notes is subject to adjustment from time to time if Moody's or S&P downgrades (or subsequently upgrades) the debt rating applicable to the notes. If the ratings from Moody's or S&P decrease below investment grade, the per annum interest rate on the notes is subject to increase by up to 2.0%. In no event will the per annum interest rate be reduced below the original interest rate applicable to the senior notes or will the total increase in the per annum interest rate exceed 2.0% above the original interest rate. The interest rates on any series of notes will permanently cease to be subject to any adjustment if the notes becomes rated A3 (or its equivalent) or higher by Moody's and A- (or its equivalent) or higher by S&P, in each case with a stable or positive outlook.

#### *Off-Balance Sheet Arrangements and Contractual Obligations*

We do not have any material off-balance sheet arrangements. The interest component of long-term debt obligations and minimum operating lease payments are reported on a pre-tax basis. The following table details our contractual cash obligations at December 31, 2008:

<u>(In millions)</u>	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Long-term debt including interest	\$ 5,051	\$ 471	\$ 1,243	\$ 2,701	\$ 636
Minimum operating lease payments	337	94	132	67	44
Purchase obligations	26	20	5	1	—
Income tax obligations	77	19	47	7	4
<b>Total</b>	<b>\$ 5,491</b>	<b>\$ 604</b>	<b>\$ 1,427</b>	<b>\$ 2,776</b>	<b>\$ 684</b>

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Market risk refers to the risk that a change in the level of one or more market prices, interest rates, currency exchange rates, indices, correlations or other market factors, such as liquidity, will result in losses for a certain financial instrument or group of financial instruments. We are exposed primarily to interest rate risk and market price risk on investments and borrowings and foreign currency risk. We actively monitor these risks through a variety of control procedures involving senior management.

In connection with processing electronic payments transactions, the funds we receive from subscribers are invested from the time we collect the funds until payments are made to the applicable merchants. These subscriber funds are generally invested in short-term instruments that are guaranteed by the United States government. Subscriber funds, which are not included in our consolidated balance sheets, can fluctuate significantly based on consumer bill payment activity, and totaled approximately \$1.1 billion as of December 31, 2008. Based upon interest rates and subscriber funds balances at December 31, 2008, a 1% increase or decrease in interest rates would increase or decrease our annual income from continuing operations by approximately \$10 million.

Fiserv ISS, which is included in discontinued operations, is a custodian of self-directed individual retirement accounts. It accepts retirement account deposits from clients and invests the funds in securities, substantially all of which are rated within the highest investment grade categories for securities. Fiserv ISS utilizes simulation models for measuring and monitoring interest rate risk and market value of portfolio equities. A formal Asset Liability Committee meets quarterly to review interest rate risks, capital ratios, liquidity levels, portfolio diversification, credit risk ratings and adherence to investment policies and guidelines. We do not believe significant changes in interest rates would have a material impact on our operating results from discontinued operations or our financial condition.

We manage our debt structure and interest rate risk through the use of fixed and floating-rate debt and through the use of interest rate hedge contracts. We currently use interest rate swaps to partially hedge our exposure to interest rate changes and to control financing costs. Generally, under these swaps, we agree with a

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counter-party to exchange the difference between fixed-rate and floating-rate interest amounts based on an agreed notional amount. Based on our long-term debt with variable interest rates as of December 31, 2008, a 1% increase in our borrowing rate would increase annual interest expense in 2009 by approximately \$10 million. We believe the risks associated with financial instruments at December 31, 2008 will not have a material effect on our consolidated financial position or results of operations.

We conduct business in the U.S. and in foreign countries and are exposed to foreign currency risk from changes in the value of underlying assets and liabilities of our non-U.S. denominated foreign investments and foreign currency transactions. Risk can be estimated by measuring the impact of a near-term adverse movement of 10% in foreign currency rates against the U.S. dollar. If these rates were 10% higher or lower at December 31, 2008, there would not have been a material adverse impact on our results of operations or financial position.