

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d)  
of the Securities Exchange Act of 1934

FOR QUARTER ENDED SEPTEMBER 30, 1998

COMMISSION FILE NUMBER 0-14948

FISERV, INC.

-----  
(Exact name of Registrant as specified in its charter)

WISCONSIN

39-1506125

-----  
(State or other jurisdiction of  
incorporation or organization)

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

255 FISERV DRIVE, BROOKFIELD, WI.

53045

-----  
(Address of principal executive office)

-----  
(Zip Code)

Registrant's telephone number, including area code: (414) 879 5000

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 (X) No ( )

At September 30, 1998, 81,974,000 shares of common stock of the Registrant were outstanding.

Exhibit Index appears at page 9.

FISERV, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
for the Three and Nine-Month Periods Ended September 30, 1998 and 1997

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
	(In thousands except per share amounts)			
REVENUES	\$309,543	\$238,255	\$894,592	\$704,960
Cost of revenues:				
Salaries, commissions and payroll related costs	143,026	109,351	415,511	328,513
Data processing expenses, rentals and telecommunication costs	28,729	25,134	84,686	74,339
Other operating expenses	67,769	46,619	189,050	135,067
Depreciation and amortization of property and equipment	15,131	12,264	43,942	36,014
Amortization of intangible assets	4,005	3,437	11,336	10,627
Capitalization of internally generated computer software-net	(2,051)	(553)	(5,073)	(2,038)
Total cost of revenues	256,609	196,252	739,452	582,522
OPERATING INCOME	52,934	42,003	155,140	122,438
Interest expense - net	3,998	2,701	11,593	9,529
INCOME BEFORE INCOME TAXES	48,936	39,302	143,547	112,909
Income tax provision	20,063	16,114	58,854	46,293
NET INCOME	\$28,873	\$23,188	\$84,693	\$66,616
NET INCOME PER SHARE:				
Basic	\$0.35	\$0.30	\$1.03	\$0.86
Diluted	\$0.34	\$0.29	\$1.00	\$0.83
Shares used in computing net income per share:				
Basic	81,957	78,600	81,884	77,789
Diluted	84,938	81,092	84,688	79,898

See notes to consolidated financial statements.

FISERV, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 1998	December 31, 1997
----- (In thousands) -----		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 87,802	\$89,377
Accounts receivable	238,402	197,771
Securities processing receivables	1,554,253	1,386,169
Prepaid expenses and other assets	90,509	91,278
Trust account investments	1,213,199	1,082,740
Other investments	143,955	125,999
Deferred income taxes	29,470	35,233
Property and equipment-net	167,546	149,055
Internally generated computer software-net	83,519	73,163
Identifiable intangible assets relating to acquisitions-net	46,828	50,426
Goodwill-net	441,750	355,280
	-----	
<b>Total</b>	<b>\$4,097,233</b>	<b>\$3,636,491</b>
	=====	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable	\$ 56,652	\$53,828
Securities processing payables	1,371,904	1,184,277
Short-term borrowings	33,850	94,975
Accrued expenses	144,378	123,380
Accrued income taxes	20,776	8,436
Deferred revenues	95,011	67,569
Trust account deposits	1,214,599	1,082,740
Long-term debt	333,632	252,031
	-----	
<b>TOTAL LIABILITIES</b>	<b>3,270,802</b>	<b>2,867,236</b>
	-----	
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock issued, 83,174,000 and 80,887,000 shares, respectively	832	809
Additional paid-in capital	442,417	427,515
Accumulated earnings	409,061	324,368
Accumulated other comprehensive income	16,551	16,563
Treasury shares, at cost (1,200,000 shares)	(42,430)	
	-----	
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>826,431</b>	<b>769,255</b>
	=====	
<b>TOTAL</b>	<b>\$4,097,233</b>	<b>\$3,636,491</b>
	=====	

See notes to consolidated financial statements.

FISERV, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
for the Nine-Month Periods Ended September 30, 1998 and 1997

	Nine Months Ended September 30, 1998                      1997	
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$84,693	\$66,616
Adjustments to reconcile income to net cash provided by operating activities:		
Deferred income taxes	3,152	2,465
Depreciation and amortization of property and equipment	43,942	36,014
Amortization of intangible assets	11,336	10,627
Capitalization of internally generated computer software-net	(5,073)	(2,038)
	138,050	113,684
Cash provided (used) by changes in assets and liabilities, net of effects from acquisitions of businesses:		
Accounts receivable	(24,522)	3,793
Prepaid expenses and other assets	2,626	(2,486)
Accounts payable and accrued expenses	17,392	7,453
Deferred revenue	13,943	7,462
Income taxes payable	15,595	513
Securities processing receivables and payables - net	19,543	27,075
	182,627	157,494
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(52,978)	(29,712)
Investments and other assets	(11,913)	(80,627)
Payment for acquisition of businesses	(98,791)	(22,106)
Trust account investments	(136,622)	(3,226)
	(300,304)	(135,671)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (decrease) in short-term obligations - net	(61,125)	(10,000)
Increase (decrease) in long-term obligations - net	81,216	(51,588)
Issuance of common stock	6,581	8,592
Purchases of treasury stock	(42,430)	
Trust account deposits	131,860	2,127
	116,102	(50,869)
Change in cash	(1,575)	(29,046)
Beginning balance	89,377	101,282
Ending balance	\$87,802	\$72,236

See notes to consolidated financial statements.

FISERV, INC. AND SUBSIDIARIES  
NOTES TO FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION

The consolidated balance sheet as of September 30, 1998 and the related consolidated statements of income and cash flows for the three and nine-month periods ended September 30, 1998 and 1997 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items. Interim results are not necessarily indicative of results for a full year. The financial statements and notes are presented as permitted by Form 10-Q, and do not contain certain information included in the annual financial statements and notes of Fiserv, Inc. and subsidiaries (the Company).

2. ACQUISITIONS

During the nine months ended September 30, 1998, the Company completed seven acquisitions including three which were accounted for as poolings of interests. Financial statements for prior periods have not been restated to include the operations of these three pooled companies due to lack of materiality.

3. SHARES USED IN COMPUTING NET INCOME PER SHARE

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
	-----			
	(In thousands)			
Weighted average number of common shares outstanding	81,957	78,600	81,884	77,789
Shares issuable upon exercise of options reduced by the number of shares which could have been purchased with the proceeds of such exercise	2,981	2,492	2,804	2,109
	=====			
Shares used in computing diluted net income per share	84,938	81,092	84,688	79,898
	=====			

Basic income per share is computed using the weighted average number of shares outstanding during the periods. Diluted income per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the periods. Shares outstanding have been restated for periods ending prior to April 1, 1998 to give affect to a three-for-two stock split issued May 29, 1998.

4. ACCOUNTING FOR INCOME TAXES

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating and tax credit carryforwards. Significant components of the Company's net deferred tax asset as of September 30, 1998 and December 31, 1997 are as follows:

	SEPTEMBER 30, 1998	December 31, 1997
	-----	
	(in thousands)	
Allowance for doubtful accounts	\$3,091	\$2,027
Accrued expenses not currently deductible	19,157	16,835
Deferred revenue	8,578	8,688
Other	4,885	230
Net operating loss and credit carryforwards	1,388	2,295
Purchased incomplete software technology	53,429	56,888
Deferred costs	(4,863)	(4,314)
Internally generated capitalized software	(34,243)	(29,999)
Excess of tax over book depreciation and amortization	(10,563)	(5,992)
Unrealized gain on investments	(11,389)	(11,425)
	=====	
Total deferred income taxes	\$29,470	\$35,233
	=====	



## 5. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended September 30,	
	1998	1997
	-----	
	(In thousands)	
Income taxes paid	\$45,313	\$42,950
Interest paid	14,372	11,119
Liabilities assumed in acquisitions of businesses	30,273	8,639

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

## RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the relative percentage which certain items in the Company's consolidated statements of income bear to revenues and the percentage change in these items.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
	-----			
	(Percent of Revenues)			
Revenues	100.00%	100.00%	100.00%	100.00%
	-----			
Salaries and related costs	46.21	45.90	46.45	46.60
Data processing costs	9.28	10.55	9.47	10.55
Other operating expenses	21.89	19.57	21.13	19.16
Depreciation and amortization	4.89	5.15	4.91	5.11
Amortization of intangible assets	1.29	1.44	1.27	1.51
Capitalization of software-net	(0.66)	(0.23)	(0.57)	(0.29)
	-----			
Total cost of revenues	82.90	82.38	82.66	82.64
	-----			
Operating income	17.10	17.62	17.34	17.36
	=====			

## REVENUES

Revenues increased 30% from \$238.3 million in the third quarter of 1997 to \$309.5 million in the current third quarter and 27% from \$705.0 million in the first nine months of 1997 to \$894.6 million in the comparable current period. Approximately 65% of the year to date growth resulted from the inclusion of revenues from the date of purchase of acquired companies and approximately 35% from increases in revenue from the addition of new clients, growth in the transaction volume experienced by existing clients and price increases.

## COST OF REVENUES

Cost of revenues increased 31% from \$196.3 million in the third quarter of 1997 to \$256.6 million in the current third quarter, and 27% from \$582.5 million in the first nine months of 1997 to \$739.5 million in the first nine months of 1998. These increases were in line with increases in revenues during the periods.

## OPERATING INCOME

Operating income increased 26% from \$42.0 million in the third quarter of 1997 to \$52.9 million in the current third quarter, and increased 27% from \$122.4 million in the first nine months of 1997 to \$155.1 million in the first nine months of 1998. As a percentage of revenues, operating margins did not vary significantly during the third quarter and first nine months of 1998 when compared to the comparable prior year periods.

**INTEREST EXPENSE - NET**

As a result of increased borrowings, interest expense increased \$1.3 million in the third quarter of 1998 and \$2.1 million for the first nine months of 1998 when compared to amounts incurred for the comparable 1997 periods. Acquisitions and the purchase of treasury stock were partly funded by the increased borrowings.

**INCOME TAX PROVISION**

Income taxes were computed at 41% in both 1998 and 1997. The 41% rate is expected to apply throughout the current year.

**NET INCOME**

Net income for the third quarter increased 25% from \$23.2 million in 1997 to \$28.9 million in 1998. Net income for the first nine months increased 27% from \$66.6 million in 1997 to \$84.7 million in 1998. Net income per share-diluted for the third quarter was \$.34 in 1998 compared to \$.29 in 1997. Net income per share-diluted for the first nine months of 1998 was \$1.00 compared to \$.83 in the comparable 1997 period. The increases in net income per share-diluted for the third quarter and first nine months of 1998 over the comparable 1997 periods amounted to \$.05 and \$.17, respectively.

**LIQUIDITY AND CAPITAL RESOURCES**

The following table summarizes the Company's primary sources of funds for the nine months ended September 30, 1998 and 1997:

	1998	1997
	-----	
	(In thousands)	
Cash provided by operating activities before changes in securities processing receivables and payables - net	163,084	130,419
Securities processing receivables and payables - net	19,543	27,075
	-----	
Cash provided by operating activities	182,627	157,494
Issuance (purchases) of common stock - net	(35,849)	8,592
Decrease (increase) in investments	(16,675)	(81,726)
Increase (decrease) in net borrowings	20,091	(61,588)
	=====	
<b>TOTAL</b>	<b>150,194</b>	<b>22,772</b>
	=====	

Long-term obligations amounted to \$333.6 million at September 30, 1998. The majority of this debt comprises \$106.1 million of senior notes due 1999 to 2005 and \$204.7 million advanced under a \$280 million unsecured line of credit and commercial paper facility expiring May 17, 2000. A facility fee of .1% to .2% per annum is required on the entire bank line regardless of usage.

The Company has historically applied a significant portion of its cash flow from operating activities and proceeds of its common stock offerings and long-term borrowings to acquisitions. The Company believes that its cash flow from operating activities together with other available sources of funds will be adequate to meet its funding requirements. However, in the event that the Company makes significant future acquisitions, it may raise funds through additional borrowings or issuance of securities.

## YEAR 2000 SYSTEMS EVALUATION

The Company provides data processing and other related services to financial institutions of all kinds. Failure by the Company in making its proprietary software systems Year 2000 compliant would have a material adverse effect on its business. The Company believes, however, that its remediation process started in 1996 will be successful and anticipates no material processing problems.

The Company has completed its assessment of its proprietary systems and has largely completed upgrading and revising the software it will continue to use in providing service to its clients. The Company anticipates that all of its proprietary systems will be completely upgraded to Year 2000 compliance, tested (including client testing) and implemented by March 31, 1999. The Company's contingency plans provide for a variety of actions in the event that a business unit has not progressed sufficiently to meet its remediation goals, including adding necessary resources, and/or migration of clients to other Company software that is Year 2000 compliant. The Company does not anticipate the need for these contingency plans based on the current system remediation status. Testing and implementation of the remaining non-mission critical systems, which are not material to the Company's business, are expected to be completed by mid-1999.

The Company has reviewed Year 2000 disclosures prepared by its principal vendors indicating that the embedded systems in the equipment which they supply to the Company or the software systems necessary to maintain their networks adequately, in the case of telephone service vendors, will be Year 2000 compliant in all material respects. Similarly, the Company has no reason to believe that its clients will not be Year 2000 compliant in all material respects.

The Company believes that it will meet its Year 2000 compliance commitments using existing resources, without incurring significant incremental expenses.

The disclosure set forth above contains forward-looking statements. Specifically, such statements are contained in sentences including the words "expect" or "anticipate" or "could" or "should". Such forward-looking statements are subject to inherent risks and uncertainties that may cause actual results to differ materially from those contemplated by such forward-looking statements. The factors that may cause actual results to differ materially from those contemplated by the forward-looking statements include the failure by third parties adequately to remediate Year 2000 issues or the inability of the Company to complete writing and/or testing software changes on the time schedules currently expected. Nevertheless, the Company expects that its Year 2000 compliance efforts will be successful without any adverse effects on its business.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

Index to exhibits

(11) Statement regarding computation of per share earnings (included on page 5, Part 1).

(b) Reports on Form 8-K

During the quarter ended September 30, 1998, the Registrant did not file any reports on Form 8-K.

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.  
-----  
(Registrant)

Date October 19, 1998  
-----

by /s/ Edward P. Alberts  
-----  
EDWARD P. ALBERTS  
Senior Vice President, Finance  
and Controller

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE SEPTEMBER 1998 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH INFORMATION.

1,000

9-MOS		
	DEC-31-1998	
	SEP-30-1998	
		87,802
	1,213,199	
	238,402	
		0
		0
	3,184,165	
		167,546
		0
	4,097,233	
	2,957,661	
		0
	0	
		0
		832
		825,599
4,097,233		0
	894,592	
		0
	733,189	
	6,263	
		0
	11,593	
	143,547	
		58,854
	84,693	
		0
		0
		0
	84,693	
	1.03	
	1.00	