
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2005

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 office)

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 checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 25, 2005, there were 188,118,160 shares of common stock, \$.01 par value, of the Registrant outstanding.

FISERV, INC. AND SUBSIDIARIES

INDEX

| | <u>Page</u> |
|---|-------------|
| PART I - FINANCIAL INFORMATION | |
| Item 1. Financial Statements | |
| Condensed Consolidated Statements of Income | 3 |
| Condensed Consolidated Balance Sheets | 4 |
| Condensed Consolidated Statements of Cash Flows | 5 |
| Notes to Condensed Consolidated Financial Statements | 6 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 8 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 11 |
| Item 4. Controls and Procedures | 11 |
| PART II - OTHER INFORMATION | |
| Item 1. Legal Proceedings | 12 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 12 |
| Item 6. Exhibits | 12 |
| Signatures | 12 |
| Exhibit Index | 13 |

PART I. FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

FISERV, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|-------------------|
| | 2005 | 2004 | 2005 | 2004 |
| Revenues: | | | | |
| Processing and services | \$913,095 | \$829,842 | \$1,795,414 | \$1,641,398 |
| Customer reimbursements | 83,331 | 89,931 | 174,126 | 187,252 |
| Total revenues | 996,426 | 919,773 | 1,969,540 | 1,828,650 |
| Cost of revenues: | | | | |
| Salaries, commissions and payroll related costs | 348,693 | 324,569 | 692,177 | 654,155 |
| Customer reimbursement expenses | 83,331 | 89,931 | 174,126 | 187,252 |
| Data processing costs and equipment rentals | 54,054 | 53,584 | 105,432 | 105,689 |
| Prescription costs | 131,085 | 108,807 | 255,181 | 204,385 |
| Other operating expenses | 146,872 | 134,031 | 279,194 | 261,068 |
| Depreciation and amortization | 45,146 | 46,939 | 88,169 | 92,851 |
| Total cost of revenues | 809,181 | 757,861 | 1,594,279 | 1,505,400 |
| Operating income | 187,245 | 161,912 | 375,261 | 323,250 |
| Interest expense - net | (1,280) | (4,486) | (4,942) | (9,218) |
| Realized gain from sale of investment | — | — | 43,452 | — |
| Income from continuing operations before income taxes | 185,965 | 157,426 | 413,771 | 314,032 |
| Income tax provision | 71,968 | 61,331 | 160,129 | 122,228 |
| Income from continuing operations | 113,997 | 96,095 | 253,642 | 191,804 |
| Loss from discontinued operations, net of tax | — | (1,061) | (619) | (3,972) |
| Net income | \$ 113,997 | \$ 95,034 | \$ 253,023 | \$ 187,832 |
| Basic net income (loss) per share: | | | | |
| Continuing operations | \$ 0.60 | \$ 0.49 | \$ 1.32 | \$ 0.98 |
| Discontinued operations | — | (0.01) | — | (0.02) |
| Total | \$ 0.60 | \$ 0.49 | \$ 1.32 | \$ 0.96 |
| Diluted net income (loss) per share: | | | | |
| Continuing operations | \$ 0.59 | \$ 0.49 | \$ 1.31 | \$ 0.97 |
| Discontinued operations | — | (0.01) | — | (0.02) |
| Total | \$ 0.59 | \$ 0.48 | \$ 1.30 | \$ 0.95 |
| Shares used in computing net income (loss) per share: | | | | |
| Basic | 190,879 | 195,051 | 192,131 | 194,803 |
| Diluted | 193,227 | 197,379 | 194,361 | 197,221 |

See notes to condensed consolidated financial statements.

FISERV, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

| | June 30, 2005 | December 31, 2004 |
|--|--------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 566,579 | \$ 516,127 |
| Accounts receivable - net | 473,897 | 437,764 |
| Prepaid expenses and other assets | 102,231 | 100,810 |
| Investments | 2,151,974 | 1,984,536 |
| Property and equipment - net | 202,338 | 200,709 |
| Intangible assets - net | 543,300 | 532,539 |
| Goodwill - net | 1,915,900 | 1,859,347 |
| Assets of discontinued operations held for sale | — | 2,751,517 |
| Total | \$5,956,219 | \$8,383,349 |
| Liabilities and Shareholders' Equity | | |
| Accounts payable | \$ 220,079 | \$ 202,616 |
| Short-term borrowings | 100,000 | 100,000 |
| Accrued expenses | 285,422 | 363,513 |
| Accrued income taxes | 50,607 | 44,955 |
| Deferred revenues | 221,684 | 226,080 |
| Customer funds held and retirement account deposits | 1,886,369 | 1,829,639 |
| Deferred income taxes | 136,517 | 134,330 |
| Long-term debt | 490,659 | 505,327 |
| Liabilities of discontinued operations held for sale | — | 2,412,467 |
| Total liabilities | 3,391,337 | 5,818,927 |
| Shareholders' equity: | | |
| Preferred stock, no par value: 25,000,000 shares authorized; none issued | — | — |
| Common stock, \$0.01 par value: 450,000,000 shares authorized; 197,455,044 and 195,940,360 shares issued | 1,975 | 1,959 |
| Additional paid-in capital | 719,470 | 679,573 |
| Accumulated other comprehensive (loss) income | (2,623) | 26,695 |
| Accumulated earnings | 2,173,562 | 1,920,539 |
| Treasury stock, at cost, 8,162,700 and 1,691,500 shares | (327,502) | (64,344) |
| Total shareholders' equity | 2,564,882 | 2,564,422 |
| Total | \$5,956,219 | \$8,383,349 |

See notes to condensed consolidated financial statements.

FISERV, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|-------------------|
| | 2005 | 2004 |
| Cash flows from operating activities: | | |
| Net income | \$ 253,023 | \$ 187,832 |
| Adjustment for discontinued operations | 619 | 3,972 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Realized gain from sale of investment | (43,452) | — |
| Deferred income taxes | 11,210 | 36,997 |
| Depreciation and amortization | 88,169 | 92,851 |
| Changes in assets and liabilities, net of effects from acquisitions and dispositions of businesses: | | |
| Accounts receivable | (24,720) | 843 |
| Prepaid expenses and other assets | 620 | (8,394) |
| Accounts payable and accrued expenses | (24,873) | (9,386) |
| Deferred revenues | (7,714) | 466 |
| Accrued income taxes | (3,200) | 24,041 |
| Net cash provided by operating activities | <u>249,682</u> | <u>329,222</u> |
| Cash flows from investing activities: | | |
| Capital expenditures, including capitalization of software costs for external customers | (69,640) | (68,885) |
| Payment for acquisitions of businesses, net of cash acquired | (135,654) | (40,918) |
| Proceeds from sale of businesses, net of expenses paid | 303,944 | — |
| Cash distribution received from discontinued operations prior to sale | 68,000 | — |
| Investments | (173,518) | (281,571) |
| Net cash used in investing activities | <u>(6,868)</u> | <u>(391,374)</u> |
| Cash flows from financing activities: | | |
| Repayment of long-term debt - net | (14,845) | (210,571) |
| Issuance of common stock | 28,911 | 20,508 |
| Purchases of treasury stock | (263,158) | — |
| Customer funds held and retirement account deposits | 56,730 | 282,458 |
| Net cash (used in) provided by financing activities | <u>(192,362)</u> | <u>92,395</u> |
| Change in cash and cash equivalents | 50,452 | 30,243 |
| Beginning balance | 516,127 | 162,668 |
| Ending balance | <u>\$ 566,579</u> | <u>\$ 192,911</u> |

See notes to condensed consolidated financial statements.

FISERV, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation

The condensed consolidated financial statements for the three and six month periods ended June 30, 2005 and 2004 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such condensed consolidated 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 consolidated financial statements and notes of Fiserv, Inc. and subsidiaries (the "Company"). It is recommended that these interim condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2004. Certain prior period amounts have been reclassified to conform to the current period presentation. See the Company's results by business segment in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

2. Recent Accounting Pronouncement

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), that requires companies to expense the value of employee stock purchase plans, stock option grants and similar awards. In April 2005, the Securities and Exchange Commission ("SEC") announced the adoption of a new rule that amends the compliance dates for SFAS 123R. The new rule allows companies to implement SFAS 123R at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005. The new rule does not change the accounting required by SFAS 123R; it only changes the date for compliance with the standard. The Company will adopt SFAS 123R on January 1, 2006 and continues to evaluate the impact that the adoption of the final standard will have on the Company's financial statements.

3. Discontinued Operations

On March 24, 2005, the Company completed the sale of its securities clearing businesses to Fidelity Global Brokerage Group, Inc. for \$344.9 million paid in cash at closing, subject to certain post-closing adjustments. Prior to completion of the sale, the securities clearing businesses paid a \$68.0 million cash distribution to the Company. The sales proceeds, net of related expenses, including taxes that became due upon the sale of the securities clearing businesses, approximated the Company's carrying value of its investment. The stock purchase agreement also provides for a contingent payment of up to \$15.0 million to be paid after the first anniversary of the closing date based on achievement of certain revenue targets. In addition, as part of the stock purchase agreement, the Company retained the liability associated with the SEC investigation of the mutual fund trading practices of the securities clearing businesses. In April 2005, Fiserv Securities, Inc. settled with the SEC on this matter for \$15.0 million, which was fully accrued for in the Company's 2004 financial statements.

The Company's securities clearing businesses have been reported as discontinued operations for all periods presented and are excluded from reported revenue, cost of revenues and operating cash flows. Summarized financial information for discontinued operations included in the financial statements for the three and six month periods ended June 30, 2005 and 2004 was as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|------------|------------------------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| <i>(In thousands)</i> | | | | |
| Processing and services revenues | \$ — | \$ 26,075 | \$26,295 | \$54,505 |
| Cost of revenues | — | 27,707 | 26,713 | 60,615 |
| Operating loss before income taxes | — | (1,632) | (418) | (6,110) |
| Income tax benefit from operations | — | 571 | 162 | 2,138 |
| Loss on sale of businesses, net of income taxes of \$48,670 | — | — | (363) | — |
| Loss from discontinued operations, net of tax | \$ — | \$ (1,061) | \$ (619) | \$ (3,972) |

4. Long-Term Debt

The Company has a credit facility totaling \$700.0 million, which is comprised of a \$465.3 million five-year revolving credit facility due in 2009 and a \$234.7 million 364-day revolving credit facility that is renewable annually through 2009. The Company must, among other requirements, maintain a minimum net worth of \$1.9 billion as of June 30, 2005 and limit its total debt to no more than three and one-half times the Company's earnings before interest, taxes, depreciation and amortization. The Company was in compliance with all debt covenants at June 30, 2005.

[Table of Contents](#)

5. Stock-Based Compensation

The Company has accounted for its stock-based compensation plans in accordance with the intrinsic value provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, the Company did not record compensation expense in the condensed consolidated financial statements for its stock-based compensation plans.

The following table illustrates the effect on net income and net income per share had compensation expense been recognized consistent with the fair value provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). The fair value of each option issued prior to January 1, 2004 was estimated on the date of grant using a Black-Scholes option-pricing model. For options granted on or after January 1, 2004, the fair value of each option was estimated on the date of grant using a binomial option-pricing model. Stock options are typically granted in the first quarter of the year, generally vest 20% on the date of grant and 20% each year thereafter and expire 10 years from the date of the award. As a result, the expense that would be recognized under SFAS 123 during the first quarter is significantly higher than the expense for the remaining quarters. The calculated expense for the six month period ended June 30, 2005 was higher than the expense in the comparable period in 2004 as certain participants met accelerated vesting provisions stipulated in the stock option agreements related to age and years of service with the Company in the first quarter of 2005.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|-----------|------------------------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| <i>(In thousands, except per share data)</i> | | | | |
| Net income: | | | | |
| As reported | \$ 113,997 | \$ 95,034 | \$ 253,023 | \$ 187,832 |
| Less: stock compensation expense — net of tax | (2,800) | (4,200) | (13,800) | (9,700) |
| Pro forma | \$ 111,197 | \$ 90,834 | \$ 239,223 | \$ 178,132 |
| Reported net income per share: | | | | |
| Basic | \$ 0.60 | \$ 0.49 | \$ 1.32 | \$ 0.96 |
| Diluted | 0.59 | 0.48 | 1.30 | 0.95 |
| Pro forma net income per share: | | | | |
| Basic | \$ 0.58 | \$ 0.47 | \$ 1.25 | \$ 0.91 |
| Diluted | 0.58 | 0.46 | 1.23 | 0.90 |

6. Shares Used in Computing Net Income Per Share

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|---------|------------------------------|---------|
| | 2005 | 2004 | 2005 | 2004 |
| <i>(In thousands)</i> | | | | |
| Weighted-average shares outstanding used for calculation of net income per share-basic | 190,879 | 195,051 | 192,131 | 194,803 |
| Common stock equivalents | 2,348 | 2,328 | 2,230 | 2,418 |
| Total shares used for calculation of net income per share-diluted | 193,227 | 197,379 | 194,361 | 197,221 |
| Weighted-average shares under stock options excluded from the calculation of common stock equivalents as the impact was anti-dilutive | 28 | 4,263 | 1,252 | 2,169 |

7. Comprehensive Income

Comprehensive income consists of net income, unrealized gains and losses on available-for-sale investment securities, foreign currency translation and fair market value adjustments on cash flow hedges and is as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|-----------|------------------------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| <i>(In thousands)</i> | | | | |
| Net income | \$ 113,997 | \$ 95,034 | \$ 253,023 | \$ 187,832 |
| Components of comprehensive income - net | 154 | (181) | (29,318) | 2,801 |
| Comprehensive income | \$ 114,151 | \$ 94,853 | \$ 223,705 | \$ 190,633 |

The components of comprehensive income for the six month period ended June 30, 2005 was negatively impacted by the realized gain on the sale of the Company's remaining ownership of 3.2 million shares of Bisys Group, Inc. common stock that was recorded in the first quarter of 2005.

8. Subsequent Event

On July 27, 2005, the Company signed a definitive agreement to acquire BillMatrix Corp. for a total purchase price of approximately \$350 million. The transaction is expected to close in the third quarter of 2005.

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

The Company is an independent provider of financial data processing systems and related information management services and products to financial institutions, other financial intermediaries and employers who self-insure their health plans. The Company's continuing operations are classified into three business segments: Financial institution outsourcing, systems and services ("Financial"); Health plan management services ("Health"); and Investment support services ("Investment").

The following tables and discussion exclude the revenues and expenses associated with customer reimbursements because management believes that it is not appropriate to include customer reimbursements in analyzing the current performance of the Company as these balances offset in revenues and expenses with no impact on operating income and these amounts are not an indicator of current or future business trends. Customer reimbursements, which primarily consist of pass-through expenses such as postage and data communication costs, were \$83.3 million and \$89.9 million for the three month periods ended June 30, 2005 and 2004 and \$174.1 million and \$187.3 million for the six month periods ended June 30, 2005 and 2004, respectively. The following tables present, for the periods indicated, certain amounts included in the Company's condensed consolidated statements of income, the relative percentage that those amounts represent to processing and services revenues, and the change in those amounts from period to period.

| | Three months ended June 30, | | | | | |
|---|-----------------------------|------------------|------------------------|-------------|---------------------|------------|
| | (In millions) | | Percentage of revenues | | Increase (Decrease) | |
| | 2005 | 2004 | 2005 | 2004 | In millions | Percentage |
| Processing and services revenues by segment: | | | | | | |
| Financial | \$ 632.1 | \$ 580.2 | 69% | 70% | \$ 51.9 | 9% |
| Health | 246.3 | 218.3 | 27% | 26% | 28.0 | 13% |
| Investment | 34.7 | 31.4 | 4% | 4% | 3.3 | 10% |
| Total | \$ 913.1 | \$ 829.8 | 100% | 100% | \$ 83.3 | 10% |
| Cost of revenues: | | | | | | |
| Salaries, commissions and payroll related costs | \$ 348.7 | \$ 324.6 | 38% | 39% | \$ 24.1 | 7% |
| Data processing costs and equipment rentals | 54.1 | 53.6 | 6% | 6% | 0.5 | 1% |
| Prescription costs | 131.1 | 108.8 | 14% | 13% | 22.3 | 20% |
| Other operating expenses | 146.9 | 134.0 | 16% | 16% | 12.8 | 10% |
| Depreciation and amortization | 45.1 | 46.9 | 5% | 6% | (1.8) | (4)% |
| Total | \$ 725.9 | \$ 667.9 | 79% | 80% | \$ 57.9 | 9% |
| Operating income by segment: (1) | | | | | | |
| Financial | \$ 160.2 | \$ 138.9 | 25% | 24% | \$ 21.3 | 15% |
| Health | 18.9 | 18.0 | 8% | 8% | 0.9 | 5% |
| Investment | 8.2 | 5.0 | 24% | 16% | 3.2 | 63% |
| Total | \$ 187.2 | \$ 161.9 | 21% | 20% | \$ 25.3 | 16% |
| Six months ended June 30, | | | | | | |
| | (In millions) | | Percentage of revenues | | Increase (Decrease) | |
| | 2005 | 2004 | 2005 | 2004 | In millions | Percentage |
| | 2005 | 2004 | 2005 | 2004 | In millions | Percentage |
| Processing and services revenues by segment: | | | | | | |
| Financial | \$1,240.6 | \$1,154.7 | 69% | 70% | \$ 85.9 | 7% |
| Health | 487.4 | 424.9 | 27% | 26% | 62.5 | 15% |
| Investment | 67.5 | 61.9 | 4% | 4% | 5.6 | 9% |
| Total | \$1,795.4 | \$1,641.4 | 100% | 100% | \$ 154.0 | 9% |
| Cost of revenues: | | | | | | |
| Salaries, commissions and payroll related costs | \$ 692.2 | \$ 654.2 | 39% | 40% | \$ 38.0 | 6% |
| Data processing costs and equipment rentals | 105.4 | 105.7 | 6% | 6% | (0.3) | — |
| Prescription costs | 255.2 | 204.4 | 14% | 12% | 50.8 | 25% |
| Other operating expenses | 279.2 | 261.1 | 16% | 16% | 18.1 | 7% |
| Depreciation and amortization | 88.2 | 92.9 | 5% | 6% | (4.7) | (5)% |
| Total | \$1,420.2 | \$1,318.1 | 79% | 80% | \$ 102.0 | 8% |
| Operating income by segment: (1) | | | | | | |
| Financial | \$ 320.3 | \$ 277.5 | 26% | 24% | \$ 42.9 | 15% |
| Health | 41.1 | 36.6 | 8% | 9% | 4.5 | 12% |
| Investment | 13.8 | 9.2 | 20% | 15% | 4.7 | 51% |

| | | | | | | |
|-------|-----------------|-----------------|------------|------------|----------------|------------|
| Total | <u>\$ 375.3</u> | <u>\$ 323.3</u> | <u>21%</u> | <u>20%</u> | <u>\$ 52.0</u> | <u>16%</u> |
|-------|-----------------|-----------------|------------|------------|----------------|------------|

(1) Operating margin by segment is calculated as a percentage of each segment's processing and services revenues.

lower revenue growth in the Health segment, offset by increased internal revenue growth in the Financial segment. Overall internal revenue growth in 2005 was primarily derived from sales to new clients, cross-sales to existing clients and increases in transaction volumes from existing clients.

The Financial segment had revenue growth of \$51.9 million, or 9%, in the second quarter of 2005 compared to 2004 and \$85.9 million, or 7%, in the first six months of 2005 compared to 2004 primarily driven by increases in internal revenue growth. The internal revenue growth rate in this segment for the second quarter was 7% in 2005 compared to 1% in 2004 and for the first six months was 6% in 2005 and 2% in 2004. The largest contributors to the increased 2005 internal revenue growth rate in this segment were increased volumes in the Company's lending division's loan settlement services businesses, incremental revenue associated with the newly signed Australian check processing business that began operations in mid-April, continued strong software license revenues, and higher than normal revenues associated with one-time flood insurance claims processing.

Financial segment revenues, primarily in 2006, will be negatively impacted by approximately \$40 million due to changes affecting three client relationships. One client is in the process of being acquired, another client transitioned from an outsourced solution to license Fiserv software, and a third client plans to convert from an outsourced solution to an in-house solution.

[Table of Contents](#)

The Financial segment revenues included early contract termination fees from clients that were acquired by other financial institutions of \$7.1 million for the second quarter of 2005 compared to \$5.1 million for the second quarter of 2004. For the first six months of 2005, the Financial segment revenues included early contract termination fees of \$22.0 million compared to \$19.4 million for the first six months of 2004. This segment's businesses generally enter into three to five-year contracts with their clients that contain early contract termination fees. These fees are very unpredictable and can vary significantly from period to period based on the number of terminated contracts and how early in the contract term a contract is terminated.

The Health segment had revenue growth of \$28.0 million, or 13%, in the second quarter of 2005 compared to 2004 and \$62.5 million, or 15%, in the first six months of 2005 compared to 2004. The internal revenue growth rate in this segment for the second quarter of 2005 was 10% (6% due to the inclusion in revenues and cost of revenues of prescription ingredient costs) compared to 50% in 2004 (36% due to the inclusion in revenues and cost of revenues of prescription ingredient costs) and for the first six months of 2005 was 12% (8% due to the inclusion in revenues and cost of revenues of prescription ingredient costs) compared to 46% (34% due to the inclusion in revenues and cost of revenues of prescription ingredient costs). The decrease in the second quarter and year to date 2005 internal revenue growth rates compared to 2004 was primarily due to significant growth of the Company's pharmacy services businesses in early 2004 based on the signing of some very large clients. In addition, growth of the health plan administration businesses in 2005 has been negatively impacted by increased competition in the large commercial employer market.

The Investment segment had internal revenue growth of \$3.3 million, or 10%, in the second quarter of 2005 compared to 2004 and \$5.6 million, or 9%, in the first six months of 2005 compared to 2004.

Cost of Revenues

Total cost of revenues increased \$57.9 million, or 9%, in the second quarter of 2005 compared to 2004 and \$102.0 million, or 8%, in the first six months of 2005 compared to 2004. As a percentage of processing and services revenues, cost of revenues were 79% for the three and six month periods ended June 30, 2005 compared to 80% in the three and six month periods ended June 30, 2004. The make-up of expense categories included in cost of revenues in 2005 as a percentage of processing and services revenues was relatively consistent with the prior year. For the six months ended June 30, 2005, prescription costs as a percentage of revenues increased to 14% compared to 12% in the prior year period due to growth in the pharmacy services businesses in the Health segment. The pharmacy services businesses have a very high proportion of total costs related to the prescription cost which increased by \$50.8 million in the first six months of 2005 from 2004 as a result of increased revenues.

Operating Income

Operating income increased \$25.3 million, or 16%, in the second quarter of 2005 compared to 2004 and \$52.0 million, or 16%, in the first six months of 2005 compared to 2004. The operating income increases were primarily derived from the Financial segment. Operating margins in the Financial segment were 25% in the second quarter of 2005 and 26% for the first six months of 2005. The increase in operating margins in 2005 compared to the prior year periods was primarily driven by increased software license revenues and higher than normal flood insurance claims processing revenue (both of which generate higher incremental margins) along with continued cost synergies from previously completed product consolidations.

The Health segment's operating margin was 8% in the second quarter of 2005 and 2004 and 8% in the first six months of 2005 compared to 9% in 2004.

The Investment segment's operating margin was 24% in the second quarter of 2005 compared to 16% in 2004 and 20% in the first six months of 2005 compared to 15% in 2004. The increase in operating margin in the second quarter of 2005 compared to the prior periods was primarily due to a temporary increase in cash investment balances that improved net investment income and continued client growth, especially in the custody and trading services for registered investment advisors.

Discontinued Operations

On March 24, 2005, the Company completed the sale of its securities clearing businesses to Fidelity Global Brokerage Group, Inc. for \$344.9 million paid in cash at closing, subject to certain post-closing adjustments. Prior to completion of the sale, the securities clearing businesses paid a \$68.0 million cash distribution to the Company. The sales proceeds, net of related expenses, including taxes that became due upon the sale of the securities clearing businesses, approximated the Company's carrying value of its investment. In the first quarter of 2005, the Company recorded a net loss on the sale of discontinued operations of \$0.4 million, net of related income taxes of \$48.7 million. The higher income tax expense on the sale of the securities clearing operations was primarily due to a significantly lower tax basis than book basis in the discontinued operations due primarily to a tax free exchange in the Company's initial purchase of one of the companies included in discontinued operations. The stock purchase agreement also provides for a contingent payment of up to \$15.0 million to be paid after the first anniversary of the closing date based on achievement of certain revenue targets. In addition, as part of the stock purchase agreement, the Company retained the liability associated with the Securities and Exchange Commission's ("SEC") investigation of the mutual fund trading practices of the securities clearing businesses. In April 2005, Fiserv Securities, Inc. settled with the SEC on this matter for \$15.0 million which was fully accrued for in the Company's 2004 financial statements.

Interest expense-net

During the first six months of 2005, net interest expense was \$4.9 million compared to \$9.2 million for the same period in 2004. The decrease in net interest expense was due to interest income earned on increased cash balances which primarily resulted from the proceeds received on the sale of the securities clearing businesses.

Realized Gain from Sale of Investment

During the first six months of 2005, the Company recorded a one-time realized gain of \$43.5 million, or \$0.14 per share, from the sale of its remaining ownership of 3.2 million shares of Bisys Group, Inc. common stock.

Income Tax Provision

The year to date effective income tax rate on continuing operations was 38.7% in 2005 and 38.9% in 2004.

Net Income Per Share - Diluted

Net income per share-diluted for the second quarter was \$0.59 in 2005 compared to \$0.48 in 2004. Net income per share-diluted for the first six months of 2005 was \$1.30 compared to \$0.95 in the comparable 2004 period. The \$1.30 in net income per share for the first six months of 2005 was positively impacted by \$0.14 per share due to a one-time realized gain on the sale of the 3.2 million shares of Bisys Group, Inc. common stock.

[Table of Contents](#)

Liquidity and Capital Resources

Free cash flow is measured as net cash provided by operating activities less capital expenditures including capitalization of software costs for external customers, as reported in the Company's condensed consolidated statements of cash flows. Free cash flow is a non-GAAP financial measure that the Company believes is useful to investors because it provides another measure of available cash flow after the Company has satisfied the capital requirements of its operations. The following table summarizes free cash flow for the Company:

| <i>(In millions)</i> | Six months ended June 30, | |
|---|------------------------------|---------|
| | 2005 | 2004 |
| Net cash provided by operating activities | \$249.7 | \$329.2 |
| Capital expenditures, including capitalization of software costs for external customers | (69.6) | (68.9) |
| Free cash flow | \$180.0 | \$260.3 |

Free cash flow in the first six months of 2005 was \$180.0 million, decreasing \$80.3 million over the prior year period. A majority of the decline in free cash flow was due to changes in accrued and deferred income taxes of \$53.0 million compared to 2004 resulting primarily from higher required estimated tax payments in the first six months of 2005 compared to 2004. In addition, free cash flow was also negatively impacted by an increase in accounts receivable of \$24.7 million in 2005, or 6%, primarily due to increased internal revenue growth in the Financial segment and the timing of accounts receivable collections. Gross software development costs for external customers capitalized in the first six months of 2005 were \$22.7 million, offset by associated amortization of \$25.5 million.

In the first quarter of 2005, the Company received a \$68.0 million cash distribution from the discontinued securities clearing businesses prior to the sale and received \$344.9 million in proceeds from the sale of the Company's securities clearing businesses. During the quarter ended June 30, 2005, the Company paid additional expenses related to the sale of its securities clearing businesses for income taxes and the settlement of the SEC's investigation of the mutual fund trading practices of the securities clearing businesses.

During the six months ended June 30, 2005, the Company made payments of \$135.7 million related to the acquisition of businesses and contingent payments on previous acquisitions. In addition, the Company repurchased \$263.2 million of common stock during the six months ended June 30, 2005 and has 1.8 million shares available for repurchase as of June 30, 2005. In July 2005, the Company's Board of Directors authorized the repurchase of an additional 10 million shares of the Company's common stock.

The Company has a credit facility totaling \$700.0 million, which is comprised of a \$465.3 million five-year revolving credit facility due in 2009 and a \$234.7 million 364-day revolving credit facility which is renewable annually through 2009. Long-term debt includes \$190.2 million borrowed under the credit facility at June 30, 2005. The Company must, among other requirements, maintain a minimum net worth of \$1.9 billion as of June 30, 2005 and limit its total debt to no more than three and one-half times the Company's earnings before interest, taxes, depreciation and amortization. At June 30, 2005, the Company had \$490.7 million of long-term debt, while shareholders' equity was \$2.6 billion. The Company was in compliance with all covenants as of June 30, 2005.

The Company believes that its cash flow from operations together with its existing cash balances will be adequate to meet its operating requirements. In the event the Company makes significant future acquisitions, however, it may raise funds through additional borrowings or the issuance of securities.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

Certain matters discussed herein are "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as "believes," "anticipates," or "expects," or words of similar import. Similarly, statements that describe future plans, objectives or goals of the Company are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those currently anticipated. Factors that could affect results include, among others, economic, competitive, governmental, regulatory and technological factors affecting the Company's operations, markets, services and related products, prices and other factors discussed in the Company's prior filings with the Securities and Exchange Commission. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The Company assumes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's quantitative and qualitative disclosures about market risk are incorporated by reference to Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and have not materially changed since that report was filed.

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"), management, with the participation of the Company's chief executive officer and chief financial officer, evaluated the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2005.

Changes in internal controls over financial reporting.

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

[Table of Contents](#)

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In April 2005, without admitting or denying the findings of the Securities and Exchange Commission (“SEC”), Fiserv Securities, Inc. (“FSI”) consented to an SEC order censuring FSI, requiring it to pay disgorgement in the amount of \$5 million and a civil penalty in the amount of \$10 million and requiring FSI to comply with certain undertakings. The aggregate \$15 million was paid to the SEC in April 2005 and was fully accrued for in the Company’s 2004 financial statements. The Company sold FSI in March 2005.

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 Securities Exchange Act of 1934) of shares of Company common stock during the three months ended June 30, 2005:

| <u>Period</u> | <u>Total Number of Shares Purchased</u> | <u>Average Price Paid per Share</u> | <u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)</u> | <u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)(2)</u> |
|--------------------|---|---|---|--|
| April 1 - 30, 2005 | 1,235,300 | \$ 40.56 | 1,235,300 | 4,279,930 |
| May 1 - 31, 2005 | 741,600 | \$ 42.91 | 741,600 | 3,538,330 |
| June 1 - 30, 2005 | 1,725,000 | \$ 43.22 | 1,725,000 | 1,813,330 |
| Total | 3,701,900 | \$ 42.27 | 3,701,900 | |

- (1) In 2004, the Company’s Board of Directors authorized the repurchase of 8.3 million shares of the Company’s common stock. As of June 30, 2005, 1,813,330 shares remained authorized for purchase under that program. The repurchase authorization does not expire.
- (2) In July 2005, the Company’s Board of Directors authorized the repurchase of an additional 10 million shares of the Company’s common stock. The repurchase authorization does not expire.

ITEM 6. EXHIBITS

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

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: July 29, 2005

By: /s/ Kenneth R. Jensen

KENNETH R. JENSEN
Senior Executive Vice President, Chief
Financial Officer, Treasurer and Assistant
Secretary

EXHIBIT INDEX

| Exhibit Number | Exhibit Description |
|---------------------------|---|
| 31.1 | Certification of the Chief Executive Officer, dated July 29, 2005 |
| 31.2 | Certification of the Chief Financial Officer, dated July 29, 2005 |
| 32 | Certification of the Chief Executive Officer and Chief Financial Officer, dated July 29, 2005 |

CERTIFICATIONS

I, Leslie M. Muma, 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 quarterly 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 quarterly 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 quarterly 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 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 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: July 29, 2005

By: /s/ Leslie M. Muma

LESLIE M. MUMA
President and Chief Executive Officer

CERTIFICATIONS

I, Kenneth R. Jensen, 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 quarterly 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 quarterly 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 quarterly 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 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 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: July 29, 2005

By: /s/ Kenneth R. Jensen

KENNETH R. JENSEN
Senior Executive Vice President, Chief
Financial Officer, Treasurer and Assistant
Secretary

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Fiserv, Inc. (the "Company") for the quarter ended June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Leslie M. Muma, as President and Chief Executive Officer of the Company, and Kenneth R. Jensen, as Senior Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary of the Company, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Leslie M. Muma

LESLIE M. MUMA
July 29, 2005

/s/ Kenneth R. Jensen

KENNETH R. JENSEN
July 29, 2005