Fidelity National Information Services, Inc.
Form 10-Q
November 01, 2017
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
Or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 001-16427

Fidelity National Information Services, Inc.
(Exact name of registrant as specified in its charter)

Georgia	37-1490331
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
601 Riverside Avenue Jacksonville, Florida	32204
(Address of principal executive offices)	(Zip Code)

(904) 438-6000
(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 x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o	Emerging growth company o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) YES o NO x

As of October 31, 2017, 333,868,551 shares of the Registrant's Common Stock were outstanding.

FORM 10-Q
QUARTERLY REPORT
Quarter Ended September 30, 2017
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FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In millions, except per share amounts)
(Unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 720	$ 683
Settlement deposits	479	520
Trade receivables, net of allowance for doubtful accounts of $56 and $41 as of September 30, 2017 and December 31, 2016, respectively	1,598	1,639
Settlement receivables	199	175
Other receivables	72	65
Prepaid expenses and other current assets	256	236
Deferred income taxes	—	101
Assets held for sale	—	863
Total current assets	3,324	4,282
Property and equipment, net	576	626
Goodwill	13,699	14,178
Intangible assets, net	4,089	4,664
Computer software, net	1,706	1,608
Deferred contract costs, net	350	310
Other noncurrent assets	550	363
Total assets	$ 24,294	$ 26,031
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,064	$ 1,146
Settlement payables	671	714
Deferred revenues	627	680
Current portion of long-term debt	296	332
Liabilities held for sale	—	279
Total current liabilities	2,658	3,151
Long-term debt, excluding current portion	8,813	10,146
Deferred income taxes	2,305	2,484
Deferred revenues	22	19
Other long-term liabilities	407	386
Total liabilities	14,205	16,186
Equity:		
FIS stockholders' equity:		
Preferred stock, $0.01 par value, 200 shares authorized, none issued and outstanding as of September 30, 2017 and December 31, 2016	—	—
Common stock, $0.01 par value, 600 shares authorized, 432 and 431 shares issued as of September 30, 2017 and December 31, 2016	4	4
Additional paid in capital	10,495	10,380
Retained earnings	3,341	3,299

Accumulated other comprehensive earnings (loss)	(340)	(331)
Treasury stock, 99 and 103 shares as of September 30, 2017 and December 31, 2016, respectively, at cost	(3,515)	(3,611)
Total FIS stockholders' equity	9,985	9,741
Noncontrolling interest	104	104
Total equity	10,089	9,845
Total liabilities and equity	$ 24,294	$ 26,031

See accompanying notes to unaudited condensed consolidated financial statements.

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FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Earnings
(In millions, except per share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Processing and services revenues	$2,198	$2,309	$6,794	$6,795
Cost of revenues	1,483	1,527	4,677	4,680
Gross profit	715	782	2,117	2,115
Selling, general, and administrative expenses	327	384	1,110	1,250
Operating income	388	398	1,007	865
Other income (expense):				
Interest expense, net	(84)	(98)	(267)	(284)
Other income (expense), net	(182)	(6)	(123)	(8)
Total other income (expense), net	(266)	(104)	(390)	(292)
Earnings from continuing operations before income taxes and equity method investment earnings	122	294	617	573
Provision for income taxes	51	103	262	200
Equity method investment earnings	—	—	—	—
Earnings from continuing operations, net of tax	71	191	355	373
Earnings (loss) from discontinued operations, net of tax	—	—	—	1
Net earnings	71	191	355	374
Net (earnings) loss attributable to noncontrolling interest	(10)	(6)	(24)	(13)
Net earnings attributable to FIS common stockholders	$61	$185	$331	$361
Net earnings per share — basic from continuing operations attributable to FIS common stockholders	$0.18	$0.57	$1.00	$1.11
Net earnings (loss) per share — basic from discontinued operations attributable to FIS common stockholders	—	—	—	—
Net earnings per share — basic attributable to FIS common stockholders	$0.18	$0.57	$1.00	$1.11
Weighted average shares outstanding — basic	331	326	330	325
Net earnings per share — diluted from continuing operations attributable to FIS common stockholders	$0.18	$0.56	$0.99	$1.09
Net earnings (loss) per share — diluted from discontinued operations attributable to FIS common stockholders	—	—	—	—
Net earnings per share — diluted attributable to FIS common stockholders	$0.18	$0.56	$0.99	$1.10
Weighted average shares outstanding — diluted	336	330	335	329
Cash dividends paid per share	$0.29	$0.26	$0.87	$0.78
Amounts attributable to FIS common stockholders:				
Net earnings from continuing operations	$61	$185	$331	$360
Net earnings (loss) from discontinued operations	—	—	—	1
Net earnings attributable to FIS common stockholders	$61	$185	$331	$361

See accompanying notes to unaudited condensed consolidated financial statements.

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FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Earnings
(In millions)
(Unaudited)

	Three months ended September 30,				Nine months ended September 30,			
	2017		2016		2017		2016	
Net earnings		$71		$191		$355		$374
Other comprehensive earnings, before tax:								
Unrealized gain (loss) on investments and derivatives	$5		$3		$(28)		$(6)	
Reclassification adjustment for gains (losses) included in net earnings	—		4		—		8	
Unrealized gain (loss) on investments and derivatives, net	5		7		(28)		2	
Foreign currency translation adjustments	46		(1)		20		50	
Minimum pension liability adjustment	—		—		(10)		—	
Other comprehensive earnings (loss), before tax:	51		6		(18)		52	
Provision for income tax expense (benefit) related to items of other comprehensive earnings	2		2		(11)		(4)	
Other comprehensive earnings (loss), net of tax	$49	49	$4	4	$(7)	(7)	$56	56
Comprehensive earnings (loss):		120		195		348		430
Net (earnings) loss attributable to noncontrolling interest		(10)		(6)		(24)		(13)
Other comprehensive (earnings) losses attributable to noncontrolling interest		(4)		1		(2)		(18)
Comprehensive earnings (loss) attributable to FIS common stockholders		$106		$190		$322		$399

See accompanying notes to unaudited condensed consolidated financial statements.

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FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES
Condensed Consolidated Statement of Equity
Nine months ended September 30, 2017
(In millions, except per share amounts)
(Unaudited)

	Number of shares		Amount						
			FIS Stockholders						
	Common shares	Treasury shares	Common stock	Additional paid in capital	Retained earnings	Accumulated other comprehensive earnings	Treasury stock	Noncontrolling interest	Total equity
Balances, December 31, 2016	431	(103)	$4	$10,380	$3,299	$ (331)	$(3,611)	$ 104	$9,845
Issuance of restricted stock	1	—	—	—	—	—	—	—	—
Exercise of stock options	—	4	—	52	—	—	117	—	169
Treasury shares held for taxes due upon exercise of stock options	—	—	—	(25)	—	—	(21)	—	(46)
Stock-based compensation	—	—	—	88	—	—	—	—	88
Cash dividends paid ($0.29 per share per quarter) and other distributions	—	—	—	—	(289)	—	—	(26)	(315)
Net earnings	—	—	—	—	331	—	—	24	355
Other comprehensive loss, net of tax	—	—	—	—	—	(9)	—	2	(7)
Balances, September 30, 2017	432	(99)	$4	$10,495	$3,341	$ (340)	$(3,515)	$ 104	$10,089

See accompanying notes to unaudited condensed consolidated financial statements.

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FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Nine months ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net earnings	$355	$374
Adjustment to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,033	876
Amortization of debt issue costs	15	14
Gain on sale of businesses	(55)	—
Loss on extinguishment of debt	192	—
Stock-based compensation	86	101
Deferred income taxes	(197)	(125)
Excess income tax benefit from exercise of stock options	—	(26)
Net changes in assets and liabilities, net of effects from acquisitions and foreign currency:		
Trade receivables	(105)	126
Settlement activity	(27)	(4)
Prepaid expenses and other assets	(20)	(32)
Deferred contract costs	(121)	(94)
Deferred revenue	(70)	121
Accounts payable, accrued liabilities, and other liabilities	(7)	11
Net cash provided by operating activities	1,079	1,342
Cash flows from investing activities:		
Additions to property and equipment	(98)	(110)
Additions to computer software	(350)	(336)
Proceeds from sale of business	1,307	—
Other investing activities, net	(3)	(4)
Net cash provided by (used in) investing activities	856	(450)
Cash flows from financing activities:		
Borrowings	7,900	5,763
Repayment of borrowings	(9,594)	(6,429)
Debt issuance costs	(13)	(20)
Excess income tax benefit from exercise of stock options	—	26
Proceeds from exercise of stock options	168	88
Treasury stock activity	(46)	(27)
Dividends paid	(289)	(255)
Distribution to Brazilian Venture partner	(23)	(20)
Other financing activities, net	(36)	(17)
Net cash used in financing activities	(1,933)	(891)
Effect of foreign currency exchange rate changes on cash	35	18
Net increase in cash and cash equivalents	37	19

Cash and cash equivalents, beginning of period	683	682
Cash and cash equivalents, end of period	$720	$701
Supplemental cash flow information:		
Cash paid for interest	$266	$218
Cash paid for income taxes	$485	$236

See accompanying notes to unaudited condensed consolidated financial statements.

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FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Unless stated otherwise or the context otherwise requires, all references to “FIS,” “we,” the “Company” or the “registrant” are to Fidelity National Information Services, Inc., a Georgia corporation, and its subsidiaries.

(1) Basis of Presentation

The unaudited financial information included in this report includes the accounts of FIS and its subsidiaries prepared in accordance with U.S. generally accepted accounting principles and the instructions to Form 10-Q and Article 10 of Regulation S-X. All adjustments considered necessary for a fair presentation have been included. This report should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. The preparation of these Condensed Consolidated Financial Statements (Unaudited) in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the Condensed Consolidated Financial Statements (Unaudited) and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. Certain reclassifications have been made in the 2016 Condensed Consolidated Financial Statements (Unaudited) to conform to the classifications used in 2017. Amounts in tables in the financial statements and accompanying footnotes may not sum due to rounding.

We report the results of our operations in three reporting segments: Integrated Financial Solutions (“IFS”), Global Financial Solutions (“GFS”) and Corporate and Other (Note 10).

(2) Acquisitions

SunGard

FIS completed the SunGard acquisition on November 30, 2015, and SunGard's results of operations and financial position are included in the consolidated financial statements from and after the date of acquisition.

In accordance with ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments", the financial statements were not retrospectively adjusted for any measurement-period adjustments that occurred in subsequent periods. Rather, any adjustments to provisional amounts that were identified during the measurement period are recorded in the reporting period in which the adjustment was determined. During the year ended December 31, 2016, adjustments were recorded to increase the fair values assigned to intangible assets, deferred taxes, other liabilities and property and equipment and to reduce the value assigned to goodwill. We are also required to record, in the same period’s financial statements in which adjustments are recorded, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of any change to the provisional amounts, calculated as if the accounting adjustment had been completed at the acquisition date. Additional depreciation and amortization of $6 million that would have been recognized in 2015 was recorded during the nine months ended September 30, 2016 related to the changes in provisional values of intangible assets.

(3) Condensed Consolidated Financial Statement Details

The following table shows the Company’s Condensed Consolidated Financial Statement details as of September 30, 2017 and December 31, 2016 (in millions):

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FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

	September 30, 2017			December 31, 2016		
	Cost	Accumulated depreciation and amortization	Net	Cost	Accumulated depreciation and amortization	Net
Property and equipment	$1,620	$ 1,044	$576	$1,522	$ 896	$626
Intangible assets	$6,464	$ 2,375	$4,089	$6,547	$ 1,883	$4,664
Computer software	$2,788	$ 1,082	$1,706	$2,358	$ 750	$1,608

The Company entered into capital lease obligations of $1 million and $16 million during the three months and $80 million and $18 million during the nine months ended September 30, 2017 and 2016, respectively. The assets are included in property and equipment and the remaining capital lease obligations are classified as long-term debt on our Condensed Consolidated Balance Sheets (Unaudited) as of September 30, 2017. Periodic payments are included in repayment of borrowings on the Condensed Consolidated Statements of Cash Flows (Unaudited).

Changes in goodwill during the nine months ended September 30, 2017 are summarized as follows (in millions):

	Total
Balance, December 31, 2016	$14,178
Goodwill distributed through sale of assets	(487)
Foreign currency adjustments	8
Balance, September 30, 2017	$13,699

Foreign currency adjustments includes an immaterial prior period adjustment related to the allocation of goodwill to the appropriate foreign currency at the time of multi-currency entity acquisitions, with the related offset to accumulated other comprehensive earnings (loss).

As of September 30, 2017, intangible assets, net of amortization, includes $3,994 million of customer relationships and $47 million of finite-lived trademarks, as well as $48 million of non-amortizable assets consisting mainly of indefinite-lived trademarks. Amortization expense for the quarter to these intangible assets was $169 million.

Settlement Activity

We manage certain integrated electronic payment services and programs and wealth management processes for our clients that require us to hold and manage client cash balances used to fund their daily settlement activity. Settlement deposits represent funds we hold that were drawn from our clients to facilitate settlement activities. Settlement receivables represent amounts funded by us. Settlement payables consist of settlement deposits from clients, settlement payables to third parties, and outstanding checks related to our settlement activities for which the right of offset does not exist or we do not intend to exercise our right of offset. Our accounting policy for such outstanding checks is to include them in settlement payables on the Condensed Consolidated Balance Sheets (Unaudited) and operating cash flows on the Condensed Consolidated Statements of Cash Flows (Unaudited).

(4) Long-Term Debt
Long-term debt as of September 30, 2017 and December 31, 2016, consisted of the following (in millions):

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FIDELITY NATIONAL INFORMATION SERVICES, INC.
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	September 30, 2017	December 31, 2016
2018 Term Loans (1)	$ —	$ 550
Senior Notes due June 2017, interest payable semi-annually at 1.450%	—	300
Senior Notes due April 2018, interest payable semi-annually at 2.000%	250	250
Senior Notes due October 2018, interest payable semi-annually at 2.850%	750	750
Senior Notes due October 2020, interest payable semi-annually at 3.625%	1,150	1,750
Senior Euro Notes due January 2021, interest payable annually at 0.400%	590	—
Senior Notes due August 2021, interest payable semi-annually at 2.250%	750	750
Senior Notes due March 2022, interest payable semi-annually at 5.000%	—	700
Senior GBP Notes due June 2022, interest payable annually at 1.700%	402	—
Senior Notes due October 2022, interest payable semi-annually at 4.500%	300	500
Senior Notes due April 2023, interest payable semi-annually at 3.500%	700	1,000
Senior Notes due June 2024, interest payable semi-annually at 3.875%	400	700
Senior Euro Notes due July 2024, interest payable annually at 1.100%	590	—
Senior Notes due October 2025, interest payable semi-annually at 5.000%	900	1,500
Senior Notes due August 2026, interest payable semi-annually at 3.000%	1,250	1,250
Senior Notes due August 2046, interest payable semi-annually at 4.500%	500	500
Revolving Loan (2)	568	36
Other	9	(58)
	9,109	10,478
Current portion	(296)	(332)
Long-term debt, excluding current portion	$ 8,813	$ 10,146

(1) Interest on the 2018 Term Loans was generally payable at LIBOR plus an applicable margin of up to 1.75% based upon the Company's corporate credit ratings. The outstanding balance on the 2018 Term Loans was paid down as of September 30, 2017.

(2) Interest on the Revolving Loan is generally payable at LIBOR plus an applicable margin of up to 1.75% plus an unused commitment fee of up to 0.25%, each based upon the Company's corporate credit ratings. As of September 30, 2017, the weighted average interest rate on the Revolving Loan, excluding fees, was 2.60%.

FIS has a syndicated credit agreement (the "FIS Credit Agreement") that provides total committed capital of $3,000 million in the form of a revolving credit facility (the "Revolving Loan") maturing on August 10, 2021. As of September 30, 2017, the outstanding principal balance of the Revolving Loan was $568 million, with $2,425 million of borrowing capacity remaining thereunder (net of $7 million in outstanding letters of credit issued under the Revolving Loan).

The obligations of FIS under the FIS Credit Agreement and under all of its outstanding senior notes rank equal in priority and are unsecured. The FIS Credit Agreement and the senior notes remain subject to customary covenants, including, among others, limitations under the FIS Credit Agreement on the payment of dividends by FIS, and customary events of default.

On July 10, 2017, FIS issued €1,000 million and £300 million principal amount of new senior notes in an inaugural European bond offering. The new senior notes include €500 million of Senior Notes due in 2021 (the “2021 Euro Notes”) that bear interest at 0.400%, £300 million of Senior Notes due in 2022 (the “2022 GBP Notes”) that bear interest at

1.700% and €500 million of Senior Notes due in 2024 (the “2024 Euro Notes”) that bear interest at 1.100%. Net proceeds from the offering, after deducting discounts and underwriting fees, were $1,491 million using a conversion rate of 1.12 EUR/USD and 1.27 GBP/USD. The new senior notes include covenants and events of default customary for similar debt obligations.

On July 25, 2017, pursuant to cash tender offers ("Tender Offers"), FIS repurchased approximately $2,000 million in aggregate principal of debt securities with a weighted average coupon of approximately 4%. The following approximate amounts of FIS's debt securities were repurchased: $600 million of its 3.625% notes due 2020, $600 million of its 5.000% notes due 2025, $200 million of its 4.500% notes due 2022, $300 million of its 3.875% due 2024 and $300 million of its 3.500% notes due 2023. The Company funded the Tender Offers with proceeds from the European bond offering and borrowings on its Revolving Loan, approximately $469 million of which were almost immediately repaid with proceeds from the sale of a majority ownership stake in the Capco consulting business and risk and compliance consulting business, which was completed on July 31, 2017 (see Note 9). FIS paid approximately $150 million in tender premiums to par to purchase the notes in the Tender Offers.

During the third quarter of 2017, due to the issuance of the 2021 and 2024 Euro Notes and 2022 GBP Notes, FIS recorded approximately $13 million of deferred financing costs, which will be amortized into interest expense over the life of the notes. Also, as a result of the Tender Offers above, FIS incurred a pre-tax charge upon extinguishment of approximately $167 million in tender premiums, the write-off of previously capitalized debt issue costs and other direct costs.

On March 15, 2017, FIS redeemed 100% of the outstanding aggregate principal amount of its $700 million 5.000% Senior Notes due March 2022 (the "Notes"). On February 1, 2017, the Company also paid down the outstanding balance on the 2018 Term Loans. The Notes and 2018 Term Loans were funded by borrowings under the Company’s Revolving Loan and cash proceeds from the sale of the Public Sector and Education ("PS&E") business. As a result of the redemption of the Notes and the pay down of the 2018 Term Loans, FIS incurred a pre-tax charge of approximately $25 million consisting of the call premium on the Notes and the write-off of previously capitalized debt issuance costs.

During the third quarter of 2016, as a result of the pay down of the 2017 Term Loans and the partial pay down of the 2018 Term Loans, FIS incurred a pre-tax charge upon extinguishment of approximately $2 million due to the write-off of associated previously capitalized debt issue costs.

The following summarizes the aggregate maturities of our debt and capital leases on stated contractual maturities, excluding unamortized non-cash bond premiums and discounts, net of $36 million, as of September 30, 2017 (in millions).

	Total
2017	$20
2018	1,041
2019	38
2020	1,152
2021	1,909
Thereafter	5,042
Total principal payments	9,202
Debt issuance costs, net of accumulated amortization	(57)
Total long-term debt	$9,145

There are no mandatory principal payments on the Revolving Loan and any balance outstanding on the Revolving Loan will be due and payable at its scheduled maturity date, which occurs at August 10, 2021.

FIS may redeem the April and October 2018 Notes, 2020 Notes, 2021 Notes, 2021 Euro Notes, 2022 Notes, 2022 GBP Notes, 2023 Notes, 2024 Notes, 2024 Euro Notes, 2025 Notes, 2026 Notes, and 2046 Notes at its option in whole or in part, at any time and from time to time, at a redemption price equal to the greater of 100% of the principal amount to be redeemed and a make-whole amount calculated as described in the related indenture in each case plus accrued and unpaid interest to, but excluding, the date of redemption, provided no make-whole amount will be paid for redemptions of the 2020 Notes, the 2021 Notes, the 2021 Euro Notes and the 2022 GBP Notes during the one month prior to their maturity, the 2022 Notes during the two months prior to their maturity, the 2023 Notes, the 2024 Notes, the 2024 Euro Notes, the 2025 Notes, and the 2026 Notes during the three months prior to their maturity, and the 2046 Notes during the six months prior to their maturity.

We monitor the financial stability of our counterparties on an ongoing basis. The lender commitments under the undrawn portions of the Revolving Loan are comprised of a diversified set of financial institutions, both domestic and international. The failure of any single lender to perform its obligations under the Revolving Loan would not adversely impact our ability to fund operations.

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The fair value of the Company's long-term debt is estimated to be approximately $203 million higher than the carrying value as of September 30, 2017. This estimate is based on quoted prices of our senior notes and trades of our other debt in close proximity to September 30, 2017, which are considered Level 2-type measurements. This estimate is subjective in nature and involves uncertainties and significant judgment in the interpretation of current market data. Therefore, the values presented are not necessarily indicative of amounts the Company could realize or settle currently.

(5) Financial Instruments

As of September 30, 2017, we had no interest rate swap transactions and no forward contracts outstanding.

Net Investment Hedges

In June 2017, the Company entered into two Euro denominated foreign currency exchange forward contracts totaling €999 million and a GBP denominated foreign currency exchange forward contract of £298 million, which were designated as a net investment hedge of its investment in Euro and GBP denominated operations, respectively, which has a functional currency of the Euro and GBP, in order to reduce the volatility in the income statement caused by the changes in foreign currency exchange rates of the Euro and GBP with respect to the U.S. dollar.

In July 2017, the forward contracts above were terminated and the Company designated its Euro-denominated Senior Notes due 2021 (€500 million) and Senior Notes due 2024 (€500 million) and GBP-denominated Senior Notes due 2022 (£300 million) as a net investment hedge of its investment in Euro and GBP denominated operations, respectively, which has a functional currency of the Euro and GBP, in order to reduce the volatility in the income statement caused by the changes in foreign currency exchange rates of the Euro and GBP with respect to the U.S. dollar.

The change in fair value of the net investment hedges due to remeasurement of the effective portion is recorded in other comprehensive income (loss). The ineffective portion of these hedging instruments impacts net income when the ineffectiveness occurs. During the third quarter of 2017, net investment hedge combined losses of $32 million, net of tax, respectively, were recognized in other comprehensive income, resulting in year-to-date losses of $50 million. No ineffectiveness was recorded on the net investment hedges above.

(6) Commitments and Contingencies

Litigation

In the ordinary course of business, the Company is involved in various pending and threatened litigation matters related to operations, some of which include claims for punitive or exemplary damages. The Company believes at this time that no actions depart from customary litigation incidental to its business.

The Company reviews all of its litigation on an on-going basis and follows the authoritative provisions for accounting for contingencies when making accrual and disclosure decisions. A liability must be accrued if (a) it is probable that a liability has been incurred and (b) the amount of loss can be reasonably estimated. If one of these criteria has not been met, disclosure is required when there is at least a reasonable possibility that a material loss may be incurred. When assessing reasonably possible and probable outcomes, the Company bases decisions on the assessment of the ultimate outcome following all appeals. Legal fees associated with defending litigation matters are expensed as incurred.

Reliance Trust Claims

Reliance Trust Company, the Company's subsidiary, is named as a defendant in a class action arising out of its provision of services as the discretionary trustee for a 401(k) Plan for one of its customers. Plaintiffs in the action seek damages and attorneys' fees, as well as equitable relief, for alleged breaches of fiduciary duty and prohibited transactions under the Employee Retirement Income Security Act of 1974. The action also makes claims against the Plan's sponsor and recordkeeper. Reliance Trust Company is vigorously defending the action and believes that it has meritorious defenses. While we believe that the ultimate resolution of the matter will not have a material impact on our financial condition, we are unable at this time to make an estimate of potential losses arising from the action because the matter is at an early stage and involves unresolved questions of fact and law.

Brazilian Tax Authorities Claims

In 2004, Proservvi Empreendimentos e Servicos, Ltda., the predecessor to Fidelity National Servicos de Tratamento de Documentos e Informatica Ltda. (“Servicos”), a subsidiary of Fidelity National Participacoes Ltda., our former item processing and remittance services operation in Brazil, acquired certain assets and employees and leased certain facilities from the Transpev Group (“Transpev”) in Brazil. Transpev’s remaining assets were later acquired by Prosegur, an unrelated third party. When Transpev discontinued its operations after the asset sale to Prosegur, it had unpaid federal taxes and social contributions owing to the Brazilian tax authorities. The Brazilian tax authorities brought a claim against Transpev and beginning in 2012 brought claims against Prosegur and Servicos on the grounds that Prosegur and Servicos were successors in interest to Transpev. To date, the Brazilian tax authorities filed 11 claims against Servicos asserting potential tax liabilities of approximately $15 million. There are potentially 23 additional claims against Transpev/Prosegur for which Servicos is named as a co-defendant or may be named, but for which Servicos has not yet been served. These additional claims amount to approximately $56 million making the total potential exposure for all 34 claims approximately $71 million. We do not believe a liability for these 34 total claims is probable and, therefore, have not recorded a liability for any of these claims.

Acquired Contingencies (SunGard)

The Company became responsible for certain contingencies which were assumed in the SunGard acquisition. The Condensed Consolidated Balance Sheet as of September 30, 2017 includes a liability of $89 million mostly related to unclaimed property examinations and tax compliance matters.

Indemnifications and Warranties

The Company generally indemnifies its clients, subject to certain limitations and exceptions, against damages and costs resulting from claims of patent, copyright, or trademark infringement associated solely with its customers' use of the Company's software applications or services. Historically, the Company has not made any material payments under such indemnifications, but continues to monitor the conditions that are subject to the indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses when they are estimable. In addition, the Company warrants to customers that its software operates substantially in accordance with the software specifications. Historically, no material costs have been incurred related to software warranties and no accruals for warranty costs have been made.

(7) Related Party Transactions

Cardinal Holdings

On July 31, 2017, FIS closed on the sale of a majority ownership stake in the Capco consulting business and risk and compliance consulting business to Clayton, Dubilier & Rice L.P., by and through certain funds that it manages ("CD&R"). CD&R acquired a 60% interest in the entity (Cardinal Holdings, L.P. ("Cardinal")) and FIS obtained the remaining 40% interest, in each case before equity issued to management (Note 9). Cardinal became a related party effective July 31, 2017.

Upon closing on the sale of the Capco consulting business and risk and compliance consulting business, FIS and Cardinal entered into a short-term Transition Services Agreement ("TSA"), whereby FIS provides various agreed upon services to Cardinal. FIS also provides ongoing management consulting services to Cardinal. Amounts transacted through these agreements were not significant to the 2017 periods presented.

Capco continues to provide Banco Bradesco S.A. ("Banco Bradesco") with consulting services. Capco revenue and related party receivables from Banco Bradesco through the July 31, 2017 closing is included below under Brazilian Venture revenue from Banco Bradesco.

Brazilian Venture

The Company operates a joint venture ("Brazilian Venture") with Banco Bradesco, in which we own a 51% controlling interest, to provide comprehensive, fully-outsourced transaction processing, call center, cardholder support and collection services to multiple card issuing clients in Brazil, including Banco Bradesco. The original accounting for this transaction resulted in the establishment of a contract intangible asset and a liability for amounts payable to the original partner banks upon final migration of their respective card portfolios and achieving targeted volumes (the “Brazilian Venture Notes”). The board

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of directors for the Brazilian Venture declared a dividend resulting in payments of $23 million and $20 million, during the three months ended September 30, 2017 and 2016, respectively. The unamortized contract intangible asset balance as of September 30, 2017 was $75 million. The carrying value of the noncontrolling interest as of September 30, 2017 was $98 million.

The Company recorded revenues of $81 million and $75 million during the three months and $250 million and $195 million during the nine months ended September 30, 2017 and 2016, respectively, from Banco Bradesco. Revenues from Banco Bradesco included $2 million and $23 million of favorable currency impact during the three and nine months ended September 30, 2017, respectively, resulting from foreign currency exchange rate fluctuations between the U.S. Dollar and Brazilian Real.

A summary of the Company’s related party receivables and payables is as follows (in millions):

Related Party	Balance sheet location	September 30, 2017	December 31, 2016
Banco Bradesco	Trade receivables	$ 53	$ 45
Banco Bradesco	Accounts payable and accrued liabilities	10	10
Banco Bradesco	Other long-term liabilities	18	22

(8) Net Earnings per Share

The basic weighted average shares and common stock equivalents for the three and nine months ended September 30, 2017 and 2016 are computed using the treasury stock method.

The following table summarizes the earnings per share attributable to FIS common stockholders for the three and nine months ended September 30, 2017 and 2016 (in millions, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net earnings from continuing operations attributable to FIS	$61	$185	$331	$360
Net earnings (loss) from discontinued operations attributable to FIS	—	—	—	1
Net earnings attributable to FIS common stockholders	$61	$185	$331	$361
Weighted average shares outstanding — basic	331	326	330	325
Plus: Common stock equivalent shares	5	4	5	4
Weighted average shares outstanding — diluted	336	330	335	329
Net earnings per share — basic from continuing operations attributable to FIS common stockholders	$0.18	$0.57	$1.00	$1.11
Net earnings (loss) per share — basic from discontinued operations attributable to FIS common stockholders	—	—	—	—
Net earnings per share — basic attributable to FIS common stockholders	$0.18	$0.57	$1.00	$1.11

Net earnings per share — diluted from continuing operations attributable to FIS common stockholders	$0.18	$0.56	$0.99	$1.09
Net earnings (loss) per share — diluted from discontinued operations attributable to FIS common stockholders	—	—	—	—
Net earnings per share — diluted attributable to FIS common stockholders	$0.18	$0.56	$0.99	$1.10

Options to purchase approximately 4 million and 1 million shares of our common stock for the three months and 4 million and 7 million for the nine months ended September 30, 2017 and 2016, respectively, were not included in the computation of diluted earnings per share because they were anti-dilutive.

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On July 20, 2017 our Board of Directors approved a plan authorizing repurchases of up to $4 billion of our outstanding common stock in the open market at prevailing market prices or in privately negotiated transactions through December 31, 2020. This share repurchase authorization replaced any existing share repurchase authorization.

(9) Divestitures

On July 31, 2017, FIS closed on the sale of a majority ownership stake in its Capco consulting business and risk and compliance consulting business to CD&R, for cash proceeds of approximately $469 million. CD&R acquired preferred units convertible into 60% of the common units of the venture and FIS obtained common units representing the remaining 40%, in each case before equity is issued to management. The preferred units are entitled to a quarterly dividend at an annual rate of 12%, payable in cash or additional preferred units at FIS' option. The businesses sold were included within the GFS and IFS segments. As a result of the sale the Company recorded a pre-tax loss of approximately $41 million during the three months ended September 30, 2017. The sale did not meet the standard necessary to be reported as discontinued operations; therefore, the pre-tax loss and related prior period earnings remain reported within earnings from continuing operations.

FIS' 40% ownership in CD&R was initially valued at $172 million and was recorded as an equity method investment included within other noncurrent assets on the Condensed Consolidated Balance Sheet. Beginning after the sale on July 31, 2017, FIS began to recognize the investment earnings in after-tax equity method investment earnings outside of operating income and segment Adjusted EBITDA. For periods prior to July 31, 2017, the Capco consulting business and risk and compliance consulting business were included within operating income and segment Adjusted EBITDA.

On February 1, 2017, the Company closed on the sale of the SunGard Public Sector and Education ("PS&E") business for $850 million, resulting in a pre-tax gain of $85 million. The transaction included all PS&E solutions, which provided a comprehensive set of technology solutions to address public safety and public administration needs of government entities as well as the needs of K-12 school districts. The divestiture is consistent with our strategy to serve the financial services markets. Cash proceeds were used to reduce outstanding debt (see Note 4). Net cash proceeds, after payment of taxes and transaction-related expenses, were approximately $500 million. The PS&E business was included in the Corporate and Other segment. The sale did not meet the standard necessary to be reported as discontinued operations; therefore, the pre-tax gain and related prior period earnings remain reported within earnings from continuing operations.

(10) Segment Information

Integrated Financial Solutions ("IFS")

The IFS segment is focused primarily on serving the North American regional and community bank and savings institution market for transaction and account processing, payment solutions, channel solutions, lending and wealth management solutions, corporate liquidity, digital channels, risk and compliance solutions, and services, capitalizing on the continuing trend to outsource these solutions. IFS’ primary software applications function as the underlying infrastructure of a financial institution's processing environment. These applications include core bank processing software, which banks use to maintain the primary records of their customer accounts, and complementary applications and services that interact directly with the core processing applications. Clients in this segment include regional and community banks, credit unions and commercial lenders, as well as government institutions, merchants and other commercial organizations. This market is primarily served through integrated solutions and characterized by multi-year processing contracts that generate highly recurring revenues. The predictable nature of cash flows generated from this segment provides opportunities for further investments in innovation, product integration, information and security, and compliance in a cost effective manner. The business solutions in this segment included the risk and compliance consulting business through its divestiture on July 31, 2017 (Note 9).

Global Financial Solutions ("GFS")

The GFS segment is focused on serving the largest global financial institutions and/or international financial institutions with a broad array of capital markets and asset management and insurance solutions, as well as banking and payments solutions.

GFS clients include the largest global financial institutions, including those headquartered in the United States, as well as all international financial institutions we serve as clients in more than 130 countries. These institutions face unique business and regulatory challenges and account for the majority of financial institution information technology spend globally. The purchasing patterns of GFS clients vary from those of IFS clients who typically purchase solutions on an outsourced basis. GFS clients purchase our solutions and services in various ways including licensing and managing technology “in-house”, fully outsourced end-to-end solutions, and using consulting and third party service providers. We have long-established relationships with many of these financial institutions that generate significant recurring revenue. GFS clients also include asset managers, buy- and sell-side securities and trading firms, insurers and private equity firms. This segment also includes the Company's consolidated Brazilian Venture (Note 7). The business solutions in this segment included the Capco consulting business through its divestiture on July 31, 2017 (Note 9).

Corporate and Other

The Corporate and Other segment consists of corporate overhead expense, certain leveraged functions and miscellaneous expenses that are not included in the operating segments as well as certain non-strategic businesses. The business solutions in this segment included the PS&E business through its divestiture on February 1, 2017 (Note 9), commercial services and check authorization. The overhead and leveraged costs relate to marketing, corporate finance and accounting, human resources, legal, and amortization of acquisition-related intangibles and other costs that are not considered when management evaluates revenue-generating segment performance, such as acquisition integration and severance costs. The Corporate and Other segment also includes the impact on revenue for 2017 and 2016 of adjusting SunGard's deferred revenue to fair value.

Adjusted EBITDA

This measure is reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. For this reason, Adjusted EBITDA, as it relates to our segments, is presented in conformity with Accounting Standards Codification Topic 280, "Segment Reporting". Adjusted EBITDA is defined as EBITDA (defined as net income (loss) before net interest expense, income tax provision (benefit) and depreciation and amortization, including amortization of purchased intangibles), plus certain non-operating items. The non-operating items affecting the segment profit measure generally include acquisition accounting adjustments, acquisition, integration and severance costs, and restructuring expenses. For consolidated reporting purposes, these costs and adjustments are recorded in the Corporate and Other segment for the periods discussed below. Adjusted EBITDA for the respective segments excludes the foregoing costs and adjustments.

Summarized financial information for the Company’s segments is shown in the following tables.

As of and for the three months ended September 30, 2017 (in millions):

	IFS	GFS	Corporate and Other	Total
Processing and services revenues	$1,120	$997	$ 81	$2,198
Operating expenses	744	703	363	1,810
Depreciation and amortization from continuing operations	82	65	16	163
Purchase accounting amortization	—	—	185	185
EBITDA	458	359	(81)	736
Acquisition deferred revenue adjustment	—	—	2	2
Acquisition, integration and severance costs	—	—	22	22
Adjusted EBITDA	$458	$359	$ (57)	760
EBITDA				$736
Interest expense				84
Depreciation and amortization from continuing operations				163
Purchase accounting amortization				185
Other income (expense) unallocated				(182)
Provision for income taxes				51
Net earnings attributable to noncontrolling interest				10
Net earnings attributable to FIS common stockholders				$61
Capital expenditures (1)	$82	$66	$ 4	$152
Total assets (2)	$10,273	$8,386	$ 5,635	$24,294
Goodwill	$7,662	$5,867	$ 170	$13,699

(1) Capital expenditures for the three months ended September 30, 2017 include $1 million of capital leases.

As of and for the three months ended September 30, 2016 (in millions):

	IFS	GFS	Corporate and Other	Total
Processing and services revenues	$1,114	$1,068	$ 127	$2,309
Operating expenses	731	789	391	1,911
Depreciation and amortization from continuing operations	70	64	14	148
Purchase accounting amortization	—	—	144	144
EBITDA	453	343	(106)	690
Acquisition deferred revenue adjustment	—	—	37	37
Acquisition, integration and severance costs	—	—	39	39
Adjusted EBITDA	$453	$343	$ (30)	$766
EBITDA				$690
Interest expense				98
Depreciation and amortization from continuing operations				148
Purchase accounting amortization				144
Other income (expense) unallocated				(6)
Provision for income taxes				103
Net earnings attributable to noncontrolling interest				6

Net earnings attributable to FIS common stockholders				$185
Capital expenditures (1)	$82	$79	$ 8	$169
Total assets (2)	$10,179	$9,131	$ 6,820	$26,130
Goodwill	$7,670	$6,443	$ 456	$14,569

(1) Capital expenditures for the three months ended September 30, 2016 include $16 million of capital leases.
(2) Total assets as of September 30, 2016 exclude $4 million related to discontinued operations.

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FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

For the nine months ended September 30, 2017 (in millions):

	IFS	GFS	Corporate and Other	Total
Processing and services revenues	$3,430	$3,092	$ 272	$6,794
Operating expenses	2,298	2,317	1,172	5,787
Depreciation and amortization from continuing operations	237	198	47	482
Purchase accounting amortization	—	—	551	551
EBITDA	1,369	973	(302)	2,040
Acquisition deferred revenue adjustment	—	—	6	6
Acquisition, integration and severance costs	—	—	141	141
Adjusted EBITDA	$1,369	$973	$ (155)	2,187
EBITDA				$2,040
Interest expense				267
Depreciation and amortization from continuing operations				482
Purchase accounting amortization				551
Other income (expense) unallocated				(123)
Provision for income taxes				262
Net earnings attributable to noncontrolling interest				24
Net earnings attributable to FIS common stockholders				$331
Capital expenditures (1)	$289	$224	$ 15	$528

(1) Capital expenditures for the nine months ended September 30, 2017 include $80 million of capital leases.

For the nine months ended September 30, 2016 (in millions):

	IFS	GFS	Corporate and Other	Total
Processing and services revenues	$3,379	$3,106	$ 310	$6,795
Operating expenses	2,256	2,415	1,259	5,930
Depreciation and amortization from continuing operations	201	183	47	431
Purchase accounting amortization	1	6	438	445
EBITDA	1,325	880	(464)	1,741
Acquisition deferred revenue adjustment	—	—	177	177
Acquisition, integration and severance costs	—	—	181	181
Adjusted EBITDA	$1,325	$880	$ (106)	$2,099
EBITDA				$1,741
Interest expense				284
Depreciation and amortization from continuing operations				431
Purchase accounting amortization				445
Other income (expense) unallocated				(8)
Provision for income taxes				200

Net earnings from discontinued operations				1
Net earnings attributable to noncontrolling interest				13
Net earnings attributable to FIS common stockholders				$361
Capital expenditures (1)	$212	$221	$ 31	$464

(1) Capital expenditures for the nine months ended September 30, 2016 include $18 million of capital leases.

Clients in Brazil, the United Kingdom, Germany, Canada and India accounted for the majority of the revenues from clients based outside of the U.S. for all periods presented. Long-term assets, excluding goodwill and other intangible assets, located outside of the United States total $515 million and $527 million as of September 30, 2017 and 2016, respectively. These assets are predominantly located in Brazil, India, Germany and the United Kingdom.

During the three and nine months ended September 30, 2017 the Company recorded certain costs relating to integration and severance activity primarily from the SunGard acquisition of $22 million and $141 million, respectively. During the three and nine months ended September 30, 2016 the Company recorded transaction and other costs, including integration activity, related to SunGard and other recent acquisitions and other severance costs of $39 million and $181 million. These costs for the 2017 and 2016 periods were recorded in the Corporate and Other segment.

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

Unless stated otherwise or the context otherwise requires, all references to "FIS," "we," the "Company" or the "registrant" are to Fidelity National Information Services, Inc., a Georgia corporation, and its subsidiaries.

The following discussion should be read in conjunction with Item 1: Condensed Consolidated Financial Statements (Unaudited) and the Notes thereto included elsewhere in this report. The statements contained in this Form 10-Q or in our other documents or in oral presentations or other statements made by our management that are not purely historical are forward-looking statements within the meaning of the U.S. federal securities laws. Statements that are not historical facts, including statements about anticipated financial outcomes, including any earnings guidance of the Company, business and market conditions, outlook, foreign currency exchange rates, expected dividends and share repurchases, the Company's sales pipeline and anticipated profitability and growth, as well as other statements about our expectations, beliefs, intentions, or strategies regarding the future, are forward-looking statements. These statements relate to future events and our future results and involve a number of risks and uncertainties. Forward-looking statements are based on management's beliefs, as well as assumptions made by, and information currently available to, management. Any statements that refer to beliefs, expectations, projections or other characterizations of future events or circumstances and other statements that are not historical facts are forward-looking statements. In many cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," or "continue," or the negative of t and other comparable terminology.

Actual results, performance or achievement could differ materially from those contained in these forward-looking statements. The risks and uncertainties that forward-looking statements are subject to include, without limitation:

- the risk that acquired businesses will not be integrated successfully, or that the integration will be more costly or more time-consuming and complex than anticipated;
- the risk that cost savings and other synergies anticipated to be realized from acquisitions may not be fully realized or may take longer to realize than expected;
- the risk of doing business internationally;
- changes in general economic, business and political conditions, including the possibility of intensified international hostilities, acts of terrorism, changes in either or both the United States and international lending, capital and financial markets and currency fluctuations;
- the effect of legislative initiatives or proposals, statutory changes, governmental or other applicable regulations and/or changes in industry requirements, including privacy regulations;
- the risks of reduction in revenue from the elimination of existing and potential customers due to consolidation in, or new laws or regulations affecting, the banking, retail and financial services industries or due to financial failures or other setbacks suffered by firms in those industries;
- changes in the growth rates of the markets for our solutions;
- failures to adapt our solutions to changes in technology or in the marketplace;
- internal or external security breaches of our systems, including those relating to unauthorized access, theft, corruption or loss of personal information and computer viruses and other malware affecting our software or platforms, and the reactions of customers, card associations, government regulators and others to any such events;
- the risk that implementation of software (including software updates) for customers or at customer locations may result in the corruption or loss of data or customer information, interruption of business operations, exposure to liability claims or loss of customers;
- the reaction of current and potential customers to communications from us or regulators regarding information security, risk management, internal audit or other matters;

- competitive pressures on pricing related to the decreasing number of community banks in the U.S., the development of new disruptive technologies competing with one or more of our solutions, increasing presence of international competitors in the U.S. market and the entry into the market by global banks and global companies with respect to certain competitive solutions, each of which may have the impact of unbundling individual solutions from a comprehensive suite of solutions we provide to many of our customers;
- the failure to innovate in order to keep up with new emerging technologies, which could impact our solutions, including the ability to attract new, or retain existing, customers;
- an operational or natural disaster at one of our major operations centers; and
- other risks detailed elsewhere in this document, or in our other filings with the Securities and Exchange Commission.

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Other unknown or unpredictable factors also could have a material adverse effect on our business, financial condition, results of operations and prospects. Accordingly, readers should not place undue reliance on these forward-looking statements. These forward-looking statements are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. Except as required by applicable law or regulation, we do not undertake (and expressly disclaim) any obligation and do not intend to publicly update or review any of these forward-looking statements, whether as a result of new information, future events or otherwise. You should carefully consider the possibility that actual results may differ materially from our forward-looking statements.

Overview

FIS is a global leader in financial services technology with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 53,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of the Standard & Poor’s 500® Index.

We have grown organically as well as through acquisitions, which have contributed critical applications and services that complement or enhance our existing offerings, diversifying our revenues by customer, geography and service offering. The completion of the SunGard acquisition on November 30, 2015 increased our existing portfolio to include solutions that automate a wide range of complex business processes for financial services institutions and corporate and government treasury departments.

FIS reports its financial performance based on three segments: Integrated Financial Solutions (“IFS”), Global Financial Solutions (“GFS”) and Corporate and Other. A description of these segments is included in Note 10 to the Notes to Condensed Consolidated Financial Statements (unaudited). Revenues by segment and the adjusted EBITDA of our segments are discussed below in Segment Results of Operations.

Business Trends and Conditions

Our revenue is primarily derived from a combination of recurring technology and processing services, professional services and software license fees. The majority of our revenue has historically been recurring, and has been provided under multi-year contracts that contribute relative stability to our revenue stream. These services, in general, are considered critical to our clients' operations. A considerable portion of these recurring revenues is derived from transaction processing fees that fluctuate with the level of accounts and card transactions, among other variable measures, associated with consumer, commercial and capital markets. Professional services revenues are typically non-recurring, and sales of software licenses are less predictable, a portion of which can be regarded as discretionary spending by our clients. In 2016, macroeconomic challenges of a slowing global economy, as well as unique events such as Brexit, affected our clients by predominantly delaying their buying decisions of consulting and professional services in certain markets.

The SunGard acquisition broadened our solution portfolio, enabling us to expand beyond our traditional banking and payments markets into the institutional and wholesale side of financial institutions as well as other capital markets organizations. It also significantly expanded our existing solutions and client base in wealth management, treasury and corporate payments. These solutions are in demand among our regional and community financial institution clients as they look for ways to replace highly regulated fee revenues. The combination also favorably impacted our revenue mix, with a greater concentration of license revenues and higher margin services. As we continue to integrate SunGard into our existing operations, we anticipate significant cost savings around administration and technology expenses, and expect to exit 2017 with a cost synergy run-rate savings exceeding $325 million.

We are actively migrating many financial institutions to outsourced integrated technology solutions to improve their profitability and address increasing and on-going regulatory requirements. As a provider of outsourcing solutions, we benefit from multi-year recurring revenue streams, which help moderate the effects of broader year-to-year economic and market changes that otherwise might have a larger impact on our results of operations. We believe our integrated solutions and outsourced services are well-positioned to address this outsourcing trend across the markets we serve.

Consumer preference continues to shift from traditional branch banking services to digital banking solutions, and our clients seek to provide a single integrated banking experience through their branch, mobile, internet and voice-banking channels. We are focused on enabling our clients to deliver this experience to their customers through our integrated solutions and services. We continue to innovate and invest in these integrated solutions and services to assist clients as they address this market demand. This is an area of on-going competition from global banks, international providers and disruptive technology innovators.

We continue to see demand for innovative solutions in the payments market that will deliver faster, more convenient payment solutions in mobile channels, internet applications and cards. We believe digital payments will grow and partially replace existing payment tender volumes over time as consumers and merchants embrace the convenience, incremental services and benefits. Digital payment volume is growing significantly but does not yet represent a meaningful amount of the payments market. Additionally, new formidable non-traditional payments competitors and large merchants are investing in and innovating digital payment technologies to address the emerging market opportunity, and it is unclear the extent to which particular technologies or services will succeed. We believe the growth of digital payments continues to present both an opportunity and a risk to us as the market develops. Although we cannot predict which digital payment technologies or solutions will be successful, we cautiously believe our client relationships, payments infrastructure and experience, adapted solutions and emerging solutions are well-positioned to maintain or grow our clients' existing payment volumes, which is our focus.

High profile North American merchant payment card information security breaches have pushed the payment card industry towards EMV integrated circuit cards as financial institutions, card networks and merchants seek to improve information security and reduce fraud costs. We invested in our card management solutions and card manufacturing and processing capabilities to accommodate EMV integrated circuit cards so we can continue to guide our clients through this technology transition and grow our card-driven businesses. We believe the trend to migrate to EMV cards will continue but at a slower volume and pace.

We anticipate consolidation within the banking industry will continue, primarily in the form of merger and acquisition activity, which we believe as a whole is detrimental to our business. However, consolidation resulting from specific merger and acquisition transactions may be beneficial to our business. When consolidations of financial institutions occur, merger partners often operate systems obtained from competing service providers. The newly formed entity generally makes a determination to migrate its core and payments systems to a single platform. When a financial institution processing client is involved in a consolidation, we may benefit by their expanding the use of our services if such services are chosen to survive the consolidation and support the newly combined entity. Conversely, we may lose revenue if we are providing services to both entities, or if a client of ours is involved in a consolidation and our services are not chosen to survive the consolidation and support the newly combined entity. It is also possible that larger financial institutions resulting from consolidation may have greater leverage in negotiating terms or could decide to perform in-house some or all of the services that we currently provide or could provide. We seek to mitigate the risks of consolidations by offering other competitive services to take advantage of specific opportunities at the surviving company.

Notwithstanding challenging global economic conditions, our ongoing international business continued to experience growth on a constant currency basis. Demand for our solutions will also be driven in developing countries by government-led financial inclusion policies aiming to reduce the unbanked population and by growth in the middle classes in these markets driving the need for more sophisticated banking solutions. The majority of our European revenue is generated by clients in the United Kingdom, France and Germany. In 2016, we experienced adverse currency impacts in our international businesses as a consequence of a relative strengthening of the U.S. dollar particularly versus the British pound sterling due in part to Brexit. In 2017, we have experienced minimal foreign currency impacts.

Globally, attacks on information technology systems continue to grow in frequency, complexity and sophistication. This is a trend we expect to continue. Such attacks have become a point of focus for individuals, businesses and governmental entities. The objectives of these attacks include, among other things, gaining unauthorized access to systems to facilitate financial fraud, disrupt operations, cause denial of service events, corrupt data, and steal non-public information. These circumstances present both a threat and an opportunity for FIS. As part of our business, we electronically receive, process, store and transmit a wide range of confidential information, including sensitive customer information and personal consumer data. We also operate payment, cash access and prepaid card systems.

FIS remains focused on making strategic investments in information security to protect our clients and our information systems. This includes both capital expenditures and operating expense on hardware, software, personnel and consulting services. We also participate in industry and governmental initiatives to improve information security for our clients. Through the expertise we have gained with this ongoing focus and involvement, we have developed fraud, security, risk management and compliance solutions to target this growth opportunity in the financial services industry.

As described in Note 9 of the Notes to Condensed Consolidated Financial Statements (Unaudited), on July 31, 2017, we sold a majority interest in certain of our consulting businesses to affiliates of CD&R. These businesses had lower margins than

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many of our other businesses. The consulting businesses sold were included within the GFS and IFS segments. Also, on Feburary 1, 2017, we sold our PS&E business, which had been recorded in our Corporate and Other segment.

Critical Accounting Policies

There have been no significant changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

Transactions with Related Parties

See Note 7 to the Notes to Condensed Consolidated Financial Statements (Unaudited) for a detailed description of transactions with related parties.

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Comparisons of three-month and nine-month periods ended September 30, 2017 and 2016

Consolidated Results of Operations (Unaudited)
(in millions, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Processing and services revenues	$2,198	$2,309	$6,794	$6,795
Cost of revenues	1,483	1,527	4,677	4,680
Gross profit	715	782	2,117	2,115
Selling, general, and administrative expenses	327	384	1,110	1,250
Operating income	388	398	1,007	865
Other income (expense):				
Interest expense, net	(84)	(98)	(267)	(284)
Other income (expense), net	(182)	(6)	(123)	(8)
Total other income (expense), net	(266)	(104)	(390)	(292)
Earnings from continuing operations before income taxes and equity method investment earnings	122	294	617	573
Provision for income taxes	51	103	262	200
Equity method investment earnings	—	—	—	—
Earnings from continuing operations, net of tax	71	191	355	373
Earnings (loss) from discontinued operations, net of tax	—	—	—	1
Net earnings	71	191	355	374
Net earnings attributable to noncontrolling interest	(10)	(6)	(24)	(13)
Net earnings attributable to FIS common stockholders	$61	$185	$331	$361
Net earnings per share — basic from continuing operations attributable to FIS common stockholders	$0.18	$0.57	$1.00	$1.11
Net earnings (loss) per share — basic from discontinued operations attributable to FIS common stockholders	—	—	—	—
Net earnings per share — basic attributable to FIS common stockholders	$0.18	$0.57	$1.00	$1.11
Weighted average shares outstanding — basic	331	326	330	325
Net earnings per share — diluted from continuing operations attributable to FIS common stockholders	$0.18			