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, 2006

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) 854-8100
(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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☑ Accelerated filer o Non-accelerated filer 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 ☑

As of June 30, 2006, 191,408,014 shares of the Registrant's Common Stock were outstanding.

FORM 10-Q
QUARTERLY REPORT
Quarter Ended June 30, 2006

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FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES AND AFFILIATES
Consolidated Balance Sheets
(In thousands)

	June 30, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 143,694	$ 133,152
Trade receivables, net of allowance for doubtful accounts of $28.5 million and $17.9 million, respectively, at June 30, 2006 and December 31, 2005	541,782	427,480
Other receivables	148,281	57,365
Settlement deposits	47,826	—
Settlement receivables	32,371	—
Receivable from related party	14,195	9,146
Prepaid expenses and other current assets	118,044	58,228
Deferred income taxes	93,692	105,845
Total current assets	1,139,885	791,216
Property and equipment, net of accumulated depreciation and amortization of $235.4 million and $186.8 million, respectively, at June 30, 2006 and December 31, 2005	300,256	220,425
Goodwill	3,697,900	1,787,713
Intangible assets, net of accumulated amortization of $376.5 million and $292.7 million, respectively, at June 30, 2006 and December 31, 2005	1,092,810	508,780
Computer software, net of accumulated amortization of $273.0 million and $208.9 million, respectively, at June 30, 2006 and December 31, 2005	633,719	451,993
Deferred contract costs	230,143	183,263
Investment in common stock and warrants of Covansys	134,252	136,024
Other noncurrent assets	113,820	109,607
Total assets	$ 7,342,785	$ 4,189,021
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 407,700	$ 309,591
Settlement payables	80,197	—
Current portion of long-term debt	15,629	33,673
Deferred revenues	273,425	254,534
Total current liabilities	776,951	597,798
Deferred revenues	111,927	111,536
Deferred income taxes	399,786	153,193
Long-term debt, excluding current portion	2,863,684	2,530,455
Other long-term liabilities	176,564	88,409
Total liabilities	4,328,912	3,481,391
Minority interest	17,712	13,060
Stockholders' equity:		
Preferred stock $0.01 par value; 200 million shares authorized, none issued and outstanding at June 30, 2006 and December 31, 2005, respectively	—	—
Common stock $0.01 par value; 600 million shares authorized, 197.4 million and 127.9 million shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively	1,974	1,279
Treasury stock $0.01 par value; 6.0 million shares as of June 30, 2006	(65,086)	—
Additional paid in capital	2,808,242	545,639
Retained earnings	242,358	156,127
Accumulated other comprehensive earnings (loss)	8,673	(8,475)
Total stockholders' equity	2,996,161	694,570
Total liabilities and stockholders' equity	$ 7,342,785	$ 4,189,021

See accompanying notes to the consolidated and combined financial statements.

FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES AND AFFILIATES
Consolidated and Combined Statements of Earnings
(In thousands, except per share amounts)

	Three month periods ended June 30, 2006	Three month periods ended June 30, 2005	Six month periods ended June 30, 2006	Six month periods ended June 30, 2005
	(Unaudited)		(Unaudited)	
Processing and services revenues, including $36.8 million and $27.7 million of revenues from related parties for the three month periods and $69.6 million and $51.4 million of revenues from related parties for the six month periods ended June 30, 2006 and 2005, respectively	$ 1,021,946	$ 708,713	$ 1,922,882	$ 1,360,293
Cost of revenues, including depreciation and amortization of $97.9 million and $63.6 million for the three month periods and $181.8 million and $128.4 million for the six month periods ended June 30, 2006 and 2005, respectively, and $1.1 million and $0.7 million of expenses to related parties in the three month periods and $1.8 million and $1.4 million for the six month periods ended June 30, 2006 and 2005, respectively	719,718	453,504	1,342,055	883,579
Gross profit	302,228	255,209	580,827	476,714
Selling, general, and administrative expenses, including depreciation and amortization of $12.5 million and $11.8 million, and expenses to related parties of $5.6 million and $12.6 million for the three month periods ended June 30, 2006 and 2005, respectively, and depreciation and amortization of $25.4 million and $22.7 million, and expenses to related parties of $10.5 million and $26.3 million for the six month periods ended June 30, 2006 and 2005, respectively	125,866	109,318	271,595	219,874
Research and development costs	23,646	28,303	51,706	52,239
Operating income	152,716	117,588	257,526	204,601
Other income (expense):				
Interest income	1,533	274	3,424	3,036
Interest expense	(49,033)	(36,388)	(92,301)	(49,809)
Other expense, net	866	85	(1,244)	(3,212)
Total other income (expense)	(46,634)	(36,029)	(90,121)	(49,985)
Earnings before income taxes, equity in earnings of unconsolidated entities and minority interest	106,082	81,559	167,405	154,616
Provision for income taxes	40,629	31,380	64,116	59,434
Earnings before equity in earnings of unconsolidated entities and minority interest	65,453	50,179	103,289	95,182
Equity in earnings of unconsolidated entities	259	1,006	2,092	2,244
Minority interest	(317)	2,609	(6)	4,254
Net earnings	$ 66,029	$ 48,576	$ 105,387	$ 93,172
Net earnings per share — basic	$ 0.34	$ 0.38	$ 0.58	$ 0.73
Weighted average shares outstanding — basic	192,224	127,920	181,168	127,920
Net earnings per share — diluted	$ 0.34	$ 0.38	$ 0.57	$ 0.73
Weighted average shares outstanding — diluted	195,374	127,920	184,242	127,920

See accompanying notes to the consolidated and combined financial statements.

FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES AND AFFILIATES
Consolidated and Combined Statements of Comprehensive Earnings
(In thousands)

	Three month periods ended June 30, 2006	Three month periods ended June 30, 2005	Six month periods ended June 30, 2006	Six month periods ended June 30, 2005
	(Unaudited)		(Unaudited)	
Net earnings	$ 66,029	$ 48,576	$ 105,387	$ 93,172
Other comprehensive earnings (loss):				
Unrealized loss on Covansys warrants(1)	(8,742)	(11,503)	(1,225)	(10,237)
Unrealized gain (loss) on interest rate swaps(2)	955	(3,772)	3,240	(3,772)
Unrealized gain (loss) on foreign currency translation	13,895	(6,678)	15,133	(14,323)
Other comprehensive earnings (loss)	6,108	(21,953)	17,148	(28,332)
Comprehensive earnings	$ 72,137	$ 26,623	$ 122,535	$ 64,840

(1) Net of income tax benefit of $5.4 million and $7.2 million for the three month periods and $0.7 million and $6.4 million for the six month periods ended June 30, 2006 and 2005, respectively.

(2) Net of income tax expense (benefit) of $0.6 million and $(2.3) million for the three month periods and $2.0 million and $(2.3) million for the six month periods ended June 30, 2006 and 2005, respectively.

See accompanying notes to the consolidated and combined financial statements.

FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES AND AFFILIATES
Consolidated Statement of Stockholders' Equity
(In thousands)
(Unaudited)

	Common Shares	Common Stock	Treasury Shares	Treasury Stock	Additional Paid in Capital	Retained Earnings	Accumulated other comprehensive earnings (loss)	Total Stockholders' Equity
Balances, December 31, 2005	127,920	$ 1,279	—	$ —	$ 545,639	$ 156,127	$ (8,475)	$ 694,570
Net earnings	—	—	—	—	—	105,387	—	105,387
Dividends paid	—	—	—	—	—	(19,156)	—	(19,156)
Certegy acquisition	69,507	695	(5,964)	(60)	2,173,311	—	—	2,173,946
Exercise of stock options	—	—	1,673	17	37,446	—	—	37,463
Tax benefit associated with exercise of stock options	—	—	—	—	8,314	—	—	8,314
Stock-based compensation	—	—	—	—	32,788	—	—	32,788
Purchases of treasury stock			(1,728)	(65,043)				(65,043)
National NY contribution from FNF			—		10,744			10,744
Unrealized gain on investments and derivatives, net	—	—	—	—	—	—	2,015	2,015
Unrealized gain on foreign currency translation	—	—	—	—	—	—	15,133	15,133
Balances, June 30, 2006	197,427	$ 1,974	(6,019)	$ (65,086)	$ 2,808,242	$ 242,358	$ 8,673	$ 2,996,161

See accompanying notes to the consolidated and combined financial statements.

FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES AND AFFILIATES
Consolidated and Combined Statements of Cash Flows
(In thousands)

	Six month periods ended June 30, 2006	2005
	(Unaudited)	
Cash flows from operating activities:		
Net earnings	$ 105,387	$ 93,172
Adjustment to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	207,169	151,103
Gain on sale of assets	(1,244)	—
Stock-based compensation	32,788	11,454
Deferred income taxes	(33,065)	30,714
Changes in assets and liabilities, net of effects from acquisitions:		
Net decrease (increase) in trade receivables	78,347	(1,588)
Net increase in prepaid expenses and other assets	(39,211)	(6,386)
Net increase in deferred revenue	13,782	30,196
Net increase in deferred contract costs	(73,894)	(36,010)
Net decrease in accounts payable, accrued liabilities and other liabilities	(65,521)	(56,236)
Net cash provided by operating activities	224,538	216,419
Cash flows from investing activities:		
Additions to property and equipment	(55,898)	(44,460)
Additions to capitalized software	(93,522)	(61,435)
Other investing activities	(227)	7,695
Acquisitions, net of cash acquired	122,512	—
Net cash used in investing activities	(27,135)	(98,200)
Cash flows from financing activities:		
Borrowings	208,000	2,885,200
Debt service payments	(352,776)	(660,168)
Capitalized debt issuance costs	(5,059)	(33,540)
Sale of stock, net of transactions costs	—	454,336
Dividends paid	(19,156)	(2,700,000)
Income tax benefit from exercise of stock options	8,314	—
Stock options exercised	37,463	—
Treasury stock purchases	(65,043)	—
Net contribution from FNF	1,396	—
Net cash used in financing activities	(186,861)	(54,172)
Net increase in cash and cash equivalents	10,542	64,047
Cash and cash equivalents, beginning of year	133,152	190,888
Cash and cash equivalents, end of year	$ 143,694	$ 254,935
Cash paid for interest	$ 91,908	$ 38,036
Cash paid for taxes	$ 42,895	$ 11,918

See accompanying notes to the consolidated and combined financial statements.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)

(1) Basis of Presentation

Fidelity National Information Services, Inc. ("FIS" or the "Company") is a leading provider of technology solutions, processing services, and information-based services to the financial services industry. The Company's formation began in early 2004 and was substantially completed on March 8, 2005, when all the entities, assets and liabilities that are included in these Consolidated and Combined Financial Statements were organized under one legal entity, except Certegy Inc. (as discussed below). The formation was accomplished through the contribution of entities and operating assets and liabilities to a newly formed subsidiary of Fidelity National Financial, Inc. ("FNF"). The Consolidated and Combined Financial Statements included herein reflect the historical financial position, results of operations and cash flows of the businesses included in the formation. On February 1, 2006, the Company completed the Merger with Certegy Inc. ("Certegy") (the "Merger") (note 5) which was accounted for as a reverse acquisition and purchase accounting was applied to the acquired assets and assumed liabilities of Certegy. The results of operations of Certegy are only included since the acquisition date.

As a result of the Merger, each outstanding share of FIS common stock was exchanged for 0.6396 shares of common stock of Certegy, which has a par value of $0.01 per share. All share and per share amounts disclosed in these financial statements and footnotes for periods prior to February 1, 2006 are presented as converted by the exchange ratio used in the Merger.

Shortly after consummating the Merger, the Company implemented a new organizational structure, which resulted in the formation of new operating segments beginning with the reporting of results for the first quarter of 2006 (note 17). Effective as of February 1, 2006, the Company's reportable segments are Transaction Processing Services, or TPS, and Lender Processing Services, or LPS. This structure reflects how the businesses are managed consistent with the new operating structure adopted following the Merger. The primary components of the TPS segment are Certegy's former reportable segments of Card and Check Services and the financial institution processing businesses of FIS's former Financial Institution Software and Services segment (Enterprise Solutions, Integrated Financial Solutions, and International operations). The primary components of the LPS segment are Mortgage Processing and Information Services, which include the mortgage lender processing component of FIS's former Financial Institution Software and Services segment, and FIS's former Lender Services, Default Management, and Information Services segments.

The unaudited financial information included in this report includes the accounts of FIS prepared in accordance with generally accepted accounting principles and the instructions to Form 10-Q and Article 5 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, 2005.

(2) Combination with FNF

As previously announced, the Company entered into an agreement and plan of merger with FNF on June 25, 2006 (the " Merger Agreement"). This merger is one step in a plan that will eliminate FNF's holding company structure and majority ownership of FIS. Pursuant to the Merger Agreement, FNF will merge with and into FIS (the "FNF Merger"), with FIS continuing as the surviving corporation following the consummation of the FNF Merger. In consideration for the FNF Merger, FNF stockholders will receive FIS stock for their FNF shares following the transfer of certain of FNF's assets and liabilities to FNT and the distribution of FNF's ownership stake in FNT to FNF stockholders (collectively the "Proposed Transactions"). Also, on June 25, 2006, FNF entered into a Securities Exchange and Distribution Agreement (the "SEDA") with FNT, providing for the completion of the Proposed Transactions. Pursuant to the SEDA and after the completion of all of the transactions, FNT, which will consist of FNF's current specialty insurance and Sedgwick business lines in addition to FNT's current title insurance business, will be renamed Fidelity National Financial, Inc. ("New FNF") and will trade under the symbol FNF. Current FNF Chairman and CEO William P. Foley, II, will assume the same positions in New FNF and serve as Executive Chairman of FIS, and other key members of FNF senior management will continue their involvement in both New FNF and FIS in executive capacities. Completion of the transaction will be subject to a number of conditions, including but not limited to: the receipt of a private letter ruling from the Internal Revenue Service and a tax opinion from FNF's tax advisor; the receipt of all necessary shareholder approvals; the receipt of all necessary regulatory approvals for the transfer of FNF's specialty insurance operations to

FNT and for the spin-off of FNF's ownership in FNT; the receipt of necessary approvals under credit agreements of FNF, FNT and FIS and any other material agreements; and other conditions set forth in the definitive agreements for the transactions. FIS expects the FNF Merger and the other related transactions to close late in the third quarter or early in the fourth quarter of 2006.

U.S. generally accepted accounting principles require that one of the two parties to the FNF Merger be designated as the acquirer for accounting purposes. However, Financial Accounting Standards Board Technical Bulletin 85-5, "Issues Relating to Accounting for Business Combinations" provides that if a transaction lacks substance, it is not a purchase event and should be accounted for based on existing carrying amounts. In the proposed FNF Merger, the minority interest of FIS does not change and, in substance, the only assets and liabilities of the combined entity after the exchange are those of FIS prior to the exchange. Because a change in ownership of the minority interest has not taken place, the exchange should be accounted for based on the carrying amounts of FIS's assets and liabilities.

(3) Summary of Significant Accounting Policies

The following describes the significant accounting policies of the Company which have been followed in preparing the accompanying Consolidated and Combined Financial Statements.

(a) Principles of Consolidation and Combination and Basis of Presentation

Prior to March 9, 2005, the historical financial statements of the Company were presented on a combined basis. Beginning March 9, 2005, after all the assets and liabilities of the Company were formally contributed to the holding company, the historical financial statements of the Company have been presented on a consolidated basis for financial reporting purposes. The accompanying unaudited Consolidated and Combined Financial Statements include those assets, liabilities, revenues, and expenses directly attributable to FIS's operations and, prior to March 9, 2005, allocations of certain FNF corporate assets, liabilities and expenses to FIS.

All significant intercompany profits, transactions and balances have been eliminated in consolidation or combination. The financial information included herein does not necessarily reflect what the financial position and results of operations of the Company would have been had it operated as a stand-alone entity during the periods covered.

The Company's investments in less than 50% owned partnerships and affiliates are accounted for using the equity method of accounting.

All dollar amounts presented in these notes and in the accompanying Consolidated and Combined Financial Statements (except per share amounts) are in thousands unless indicated otherwise.

(b) Transactions with Related Parties

The Company has historically conducted business with FNF and its majority-owned subsidiary, Fidelity National Title Group, Inc. ("FNT"). In March 2005, in connection with the recapitalization and sale of equity interest (see note 4), the Company entered into various agreements with FNF and FNT under which the Company will continue to provide title agency services, title plant management, and IT services. Further, the Company also entered into service agreements with FNF under which FNF and FNT will continue to provide corporate services to the Company. On February 1, 2006, in connection with the closing of the Certegy Merger (see note 5), many of these agreements were amended and restated. The amended and restated agreements are based substantially on the same versions of the agreements that were originally executed in March 2005. These agreements are being evaluated in relation to the merger agreement with FNF mentioned previously, but the economic terms of such agreements will not change significantly. A summary of these agreements is as follows:

- *Agreement to provide data processing services.* This arrangement governs the revenues to be earned by the Company for providing IT support services and software, primarily infrastructure support and data center management, to FNF and FNT. Subject to certain early termination provisions (including the payment of minimum monthly service and termination fees), this agreement has an initial term of five years with an option to renew for one or two additional years.

- *Agreements to provide title plant information, maintenance and management.* These agreements govern the fee structure under which the Company will be paid for maintaining, managing and updating title plants owned by FNT's title underwriters in certain parts of the country. This business requires, among other things, that the Company gather updated property information, organize it, input it into one of several systems, maintain or obtain the use of necessary software and hardware to store, access and deliver the data, sell and deliver the data to customers and provide various forms of customer support. The Company sells property information to title underwriters which are subsidiaries of FNT as well as to various unaffiliated customers. In the case of the maintenance agreement, the Company is responsible for the costs of keeping the title plant assets current and functioning and in return receives the revenue generated by those assets. The Company will pay FNT a royalty fee of 2.5% to 3.75% of the revenues received. Subject to certain early termination provisions for cause, each of these agreements may be terminated upon five years' prior written notice, which notice may not be given until after the fifth anniversary of the effective date of the agreement (thus effectively resulting in a minimum ten year term and a rolling one-year term thereafter).

- *Agreements to provide software development and services.* These agreements govern the fee structure under which the Company will be paid for providing software development and services to FNT which consist of developing software for use in the title operations of FNT.

- *Arrangements to provide other real estate related services.* Under these arrangements the Company is paid for providing other real estate related services to FNT, which consist primarily of data services required by the title insurance operations.

- *Agreements by FNF and FNT to provide corporate services to the Company.* These agreements provide for FNF and FNT to continue to provide general management, accounting, treasury, tax, finance, legal, payroll, human resources, employee benefits, internal audit, mergers and acquisitions, and other corporate support to the Company. The pricing of these services will be at cost for services which are either directly attributable to the Company, or in certain circumstances, an allocation of the Company's share of the total costs incurred by FNF or FNT in providing such services based on estimates that FNF, FNT and the Company believe to be reasonable.

- *Licensing, leasing and cost sharing agreements.* These agreements provide for the reimbursement of certain amounts to FNF or its subsidiaries related to various miscellaneous licensing, leasing, and cost sharing agreements

- *Agreements to provide title agency services.* These agreements allow the Company to provide services to existing customers through loan facilitation transactions, primarily with large national lenders. The arrangement involves the Company providing title agency services which result in the issuance of title policies by the Company on behalf of title insurance underwriters owned by FNT and subsidiaries. Subject to certain early termination provisions for cause, each of these agreements may be terminated upon five years' prior written notice, which notice may not be given until after the fifth anniversary of the effective date of the agreement (thus effectively resulting in a minimum ten year term and a rolling one-year term thereafter). The LPS segment includes revenues from unaffiliated third parties of $18.2 million and $19.1 million for the three month periods and $36.9 million and $38.1 million for the six month periods ended June 30, 2006 and 2005, respectively, representing commissions on title insurance policies written by the Company on behalf of title insurance subsidiaries of FNT. These commissions are equal to 88% of the total title premium from title policies that the Company places with subsidiaries of FNT. The Company also performs similar functions in connection with trustee sale guarantees, a form of title insurance that subsidiaries of FNT issue as part of the foreclosure process on a defaulted loan.

A detail of related party items included in revenues and expenses is as follows (in millions):

**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES AND AFFILIATES
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)—Continued**

	Three month period ended June 30,		Six month period ended June 30,	
	2006	2005	2006	2005
Data processing services revenue	$ 17.7	$ 13.1	$ 34.6	$ 24.7
Title plant information revenue	6.2	7.6	11.8	14.2
Software revenue	9.9	3.8	17.3	6.6
Other real-estate related services	3.0	3.2	5.9	5.9
Total revenues	$ 36.8	$ 27.7	$ 69.6	$ 51.4

These amounts represent revenues from FNF and/or FNT for which we earn margins that are comparable to what FIS earns from other third parties.

	Three month period ended June 30,		Six month period ended June 30,	
	2006	2005	2006	2005
Title plant royalty expense	$ 1.1	$ 0.7	$ 1.8	$ 1.4
Rent expense	—	2.2	—	5.0
Corporate services	2.1	6.3	4.5	13.9
Licensing, leasing and cost sharing agreement	3.5	4.1	6.0	7.4
Total expenses	$ 6.7	$ 13.3	$ 12.3	$ 27.7

These amounts represent expenses from FNF and/or FNT that are comparable to what FIS pays to other third parties.

The Company believes the amounts earned from or charged by FNF and/or FNT to the Company under each of the foregoing service arrangements are fair and reasonable. Although the 88% commission rate on title insurance policies was set without negotiation, the Company believes it is consistent with the average rate that would be available to a third party title agent given the amount and the geographic distribution of the business produced and the low risk of loss profile of the business placed. In connection with title plant management, the Company charges FNT title insurers for title information at approximately the same rates it and other similar vendors charge unaffiliated title insurers. The Company’s IT infrastructure support and data center management services to FNF and FNT is priced within the range of prices the Company offers to third parties.

(c) Cash and Cash Equivalents

For purposes of reporting cash flows, highly liquid instruments purchased with original maturities of three months or less are considered cash equivalents. The carrying amounts reported in the Consolidated Balance Sheets for these instruments approximate their fair value.

(d) Fair Value of Financial Instruments

The fair values of financial instruments, which include trade receivables and long-term debt, approximate their carrying values. These estimates are subjective in nature and involve 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. The Company intends to hold such instruments to maturity. The Company holds, or has held, certain derivative instruments, specifically interest rate swaps, warrants and several put and call options relating to certain majority-owned subsidiaries (see note 3(e)).

(e) Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, (“SFAS No. 133”) as amended. During 2005 and 2006, the Company engaged in hedging activities relating to its variable rate debt through the use of interest rate swaps. The Company designates these interest rate swaps as cash flow hedges. The estimated fair value of the cash flow hedges are recorded as an asset or liability of the Company and are included in the accompanying Consolidated Balance Sheets in other non-current assets and or other long term liabilities, as appropriate, and as a component of accumulated other comprehensive earnings, net of deferred taxes. A portion of the amount included in accumulated other comprehensive earnings is reclassified into interest expense as a yield adjustment as interest payments are made on the Term Loan B facility. The Company's existing cash flow hedges are highly effective and there is no current impact on earnings due to hedge ineffectiveness. It is the policy of the Company to execute such instruments with credit-worthy banks and not to enter into derivative financial instruments for speculative purposes.

The Company also owns warrants to purchase additional shares of common stock of Covansys Corporation. From September 2004 (the date of initial purchase of Covansys stock and warrants) until March 25, 2005, the Company accounted for the warrants under SFAS No. 133. Under the provisions of SFAS No. 133, the warrants were considered derivative instruments and were recorded at a fair value of approximately $23.5 million on the date of acquisition. During the first quarter of 2005, the Company recorded a loss of $4.4 million on the decrease in fair value of the warrants through March 25, 2005 which is reflected in the Consolidated and Combined Statement of Earnings in other income and expense. On March 25, 2005, the terms of the warrants were amended to add a mandatory holding period subsequent to exercise of the warrants and eliminate a cashless exercise option available to the Company such that the accounting for the investment in the warrants is now governed by the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and changes in the fair value of the warrants are recorded in other comprehensive earnings.

(f) Trade Receivables, net

A summary of trade receivables, net, at June 30, 2006 and December 31, 2005 is as follows (in thousands):

	June 30, 2006	December 31, 2005
Trade receivables — billed	$ 463,534	$ 348,031
Trade receivables — unbilled	106,709	97,392
Total trade receivables	570,243	445,423
Allowance for doubtful accounts	(28,461)	(17,943)
Total trade receivables, net	$ 541,782	$ 427,480

Settlement Deposits, Receivables, and Payables. The Company records settlement receivables and payables that result from timing differences in the Company's settlement process with merchants, financial institutions, and credit card associations related to merchant and card transaction processing and third-party check collections. Cash held by FIS associated with this settlement process is classified as settlement deposits in the Consolidated Balance Sheets.

The Company has a $100 million unsecured revolving credit facility that it uses to finance its customers' shortfalls in the daily funding requirements associated with the Company's credit and debit card settlement operations. Amounts borrowed are typically repaid within one to two business days, as customers fund the shortfalls. This facility has a term of 364 days and is renewed annually. There were no amounts outstanding under this facility at June 30, 2006.

(g) Other receivables

Other receivables represent amounts due from consumers related to deferred debit processing services offered in Australia and the U.K, amounts due from financial institutions for the settlement of transactions in our cash access business, fees due from financial institutions related to our property exchange facilitation business, and income taxes receivable. The carrying value for these receivables approximates their fair value.

(h) Goodwill

Goodwill represents the excess of cost over fair value of identifiable net assets acquired and liabilities assumed in business combinations. SFAS No. 142, *Goodwill and Intangible Assets* ("SFAS No. 142") requires that intangible assets with estimable lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"). SFAS No 142 and SFAS No. 144 also provide that goodwill and other intangible assets with indefinite useful lives should not be amortized, but shall be tested for impairment annually or more frequently if circumstances indicate potential impairment, through a comparison of fair value to its carrying amount. The Company measures for impairment on an annual basis during the fourth quarter using a September 30th measurement unless circumstances require a more frequent measurement.

(i) Long-lived Assets

SFAS No. 144 requires that long-lived assets and intangible assets with definite useful lives be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the assets exceeds the fair value of the asset.

(j) Intangible Assets

The Company has intangible assets which consist primarily of customer relationships and are recorded in connection with acquisitions at their fair value based on the results of valuations by third parties. Customer relationships are amortized over their estimated useful lives using an accelerated method which takes into consideration expected customer attrition rates up to a ten-year period. Intangible assets with estimated useful lives are reviewed for impairment in accordance with SFAS No. 144 while intangible assets that are determined to have indefinite lives are reviewed for impairment at least annually in accordance with SFAS No. 142.

(k) Computer Software

Computer software includes the fair value of software acquired in business combinations, purchased software and capitalized software development costs. Purchased software is recorded at cost and amortized using the straight-line method over a 3-year period and software acquired in business combinations is recorded at its fair value and amortized using straight-line and accelerated methods over their estimated useful lives, ranging from five to ten years.

Capitalized software development costs are accounted for in accordance with either SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* (“SFAS No. 86”), or with the American Institute of Certified Public Accountants (“AICPA”) Statement of Position (“SOP”) No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (“SOP 98-1”). After the technological feasibility of the software has been established (for SFAS No. 86 software), or at the beginning of application development (for SOP No. 98-1 software), software development costs, which include salaries and related payroll costs and costs of independent contractors incurred during development, are capitalized. Research and development costs incurred prior to the establishment of technological feasibility (for SFAS No. 86 software), or prior to application development (for SOP No. 98-1 software), are expensed as incurred. Software development costs are amortized on a product-by-product basis commencing on the date of general release of the products (for SFAS No. 86 software) and the date placed in service for purchased software (for SOP No. 98-1 software). Software development costs (for SFAS No. 86 software) are amortized using the greater of (1) the straight-line method over its estimated useful life, which ranges from three to ten years or (2) the ratio of current revenues to total anticipated revenue over its useful life.

(l) Deferred Contract Costs

Costs on software sales and outsourced data processing and application management arrangements, including costs incurred for bid and proposal activities, are generally expensed as incurred. However, certain costs incurred upon initiation of a contract are deferred and expensed over the contract life. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or transition activities and are primarily associated with installation of systems/processes and data conversion.

In the event indications exist that a deferred contract cost balance related to a particular contract may be impaired, undiscounted estimated cash flows of the contract are projected over its remaining term and compared to the unamortized deferred contract cost balance. If the projected cash flows are not adequate to recover the unamortized cost balance, the balance would be adjusted to equal the contract's net realizable value, including any termination fees provided for under the contract, in the period such a determination is made.

(m) Property and Equipment

Property and equipment is recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed primarily using the straight-line method based on the estimated useful lives of the related assets: thirty years for buildings and three to seven years for furniture, fixtures and computer equipment. Leasehold improvements are amortized using the straight-line method over the lesser of the initial term of the applicable lease or the estimated useful lives of such assets.

(n) Income Taxes

Through March 8, 2005, the Company's operating results were included in FNF's Consolidated U.S. Federal and State income tax returns. The provision for income taxes in the Consolidated and Combined Statements of Earnings is made at rates consistent with what the Company would have paid as a stand-alone taxable entity in those periods. Beginning on March 9, 2005, the Company became its own tax paying entity. The Company recognizes deferred income tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities and expected benefits of utilizing net operating loss and credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The impact on deferred income taxes of changes in tax rates and laws, if any, are reflected in the consolidated and combined financial statements in the period enacted.

(o) Revenue Recognition

The following describes the Company's primary types of revenues and its revenue recognition policies as they pertain to the types of transactions the Company enters into with its customers. The Company enters into arrangements with customers to provide services, software and software related services such as post-contract customer support and implementation and training either individually or as part of an integrated offering of multiple products and services. These products and services occasionally include offerings from more than one segment to the same customer. The revenues for services provided under these multiple element arrangements are recognized in accordance with the applicable revenue recognition accounting principles as further described below.

In its TPS business, the Company recognizes revenues relating to bank processing and credit and debit card processing services along with software licensing and software related services. Several of the Company's contracts include a software license and one or more of the following services: data processing, development, implementation, conversion, training, programming, post-contract customer support and application management. In some cases, these services are offered in combination with one another and in other cases the Company offers them individually. Revenues from processing services are typically volume-based depending on factors such as the number of accounts processed, transactions processed and computer resources utilized.

The substantial majority of the revenues in the TPS business are from outsourced data processing, credit and debit card processing, and application management arrangements. Revenues from these arrangements are recognized as services are performed in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 104 ("SAB No. 104"), *Revenue Recognition* and related interpretations. SAB No. 104 sets forth guidance as to when revenue is realized or realizable and earned when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed and determinable; and (4) collectability is reasonably assured. Revenues and costs related to implementation, conversion and programming services associated with the Company's data processing and application management agreements during the implementation phase are deferred and subsequently recognized using the straight-line method over the term of the related services agreement. The Company evaluates these deferred contract costs for impairment in the event any indications of impairment exist.

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In the event that the Company's arrangements with its customers include more than one product or service, the Company determines whether the individual revenue elements can be recognized separately in accordance with Financial Accounting Standards Board ("FASB") Emerging Issues Task Force No. 00-21 ("EITF 00-21"), *Revenue Arrangements with Multiple Deliverables*. EITF 00-21 addresses the determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how the arrangement consideration should be measured and allocated to the separate units of accounting.

If the products and services are software related products and services as determined under AICPA's SOP 97-2 *Software Revenue Recognition* ("SOP 97-2"), and SOP 98-9 *Modification of SOP No. 97-2, Software Revenue Recognition, with Respect to Certain Transactions* ("SOP 98-9") the Company applies these pronouncements and related interpretations to determine the appropriate units of accounting and how the arrangement consideration should be measured and allocated to the separate units.

The Company recognizes software license and post-contract customer support fees as well as associated development, implementation, training, conversion and programming fees in accordance with SOP No. 97-2 and SOP No. 98-9. Initial license fees are recognized when a contract exists, the fee is fixed or determinable, software delivery has occurred and collection of the receivable is deemed probable, provided that vendor-specific objective evidence ("VSOE") has been established for each element or for any undelivered elements. The Company determines the fair value of each element or the undelivered elements in multi-element software arrangements based on VSOE. If the arrangement is subject to accounting under SOP No. 97-2, VSOE for each element is based on the price charged when the same element is sold separately, or in the case of post-contract customer support, when a stated renewal rate is provided to the customer. If evidence of fair value of all undelivered elements exists but evidence does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. If evidence of fair value does not exist for one or more undelivered elements of a contract, then all revenue is deferred until all elements are delivered or fair value is determined for all remaining undelivered elements. Revenue from post-contract customer support is recognized ratably over the term of the agreement. The Company records deferred revenue for all billings invoiced prior to revenue recognition.

With respect to a small percentage of revenues, the Company uses contract accounting, as required by SOP No. 97-2, when the arrangement with the customer includes significant customization, modification, or production of software. For elements accounted for under contract accounting, revenue is recognized in accordance with SOP 81-1, *Accounting for Performance of Construction Type and Certain Production-Type Contracts*, using the percentage-of-completion method since reasonably dependable estimates of revenues and contract hours applicable to various elements of a contract can be made. Revenues in excess of billings on these agreements are recorded as unbilled receivables and are included in trade receivables. Billings in excess of revenue recognized on these agreements are recorded as deferred revenue until revenue recognition criteria are met. Changes in estimates for revenues, costs and profits are recognized in the period in which they are determinable. When the Company's estimates indicate that the entire contract will be performed at a loss, a provision for the entire loss is recorded in that accounting period.

In its LPS business, the Company recognizes revenues relating to mortgage processing services, loan facilitation services, default management services, and property data-related services. Mortgage processing arrangements are typically volume-based depending on factors such as the number of accounts processed, transactions processed and computer resources utilized. Loan facilitation services primarily consist of centralized title agency and closing services for various types of lenders. Default management services assist customers through the default and foreclosure process, including property preservation and maintenance services (such as lock changes, window replacement, debris removal and lawn service), posting and publication of foreclosure and auction notices, title searches, document preparation and recording services, and referrals for legal and property brokerage services. Property data or data-related services principally include appraisal and valuation services, property records information, real estate tax services, borrower credit and flood zone information and multiple listing software and services. Revenues derived from these services are recognized as the services are performed in accordance with SAB No. 104 as described above. Revenues relating to loan facilitation services are typically recognized at the time of closing of the related real estate transaction. Ancillary service fees are recognized when the service is provided.

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In addition, the Company's flood and tax units provide various services including life-of-loan-monitoring services. Revenue for life-of-loan services is deferred and recognized ratably over the estimated average life of the loan service period, which is determined based on the Company's historical experience and industry data. The Company evaluates its historical experience on a periodic basis, and adjusts the estimated life of the loan service period prospectively.

Revenue derived from software and service arrangements included in the lender processing services segment is recognized in accordance with SOP No. 97-2 as discussed above.

(p) Stock-Based Compensation Plans

Certain FIS employees are participants in the Fidelity National Information Services, Inc. 2005 Stock Incentive Plan, which provides for the granting of incentive and nonqualified stock options, restricted stock and other stock-based incentive awards for officers and key employees. Also, certain FIS employees are participants in FNF's stock-based compensation plans. Through the acquisition of Certegy, the Company adopted the Certegy stock incentive plans, which also allow for the granting of the stock-based awards. All of the outstanding awards as of January 31, 2006 under Certegy's plans were vested prior to the Merger.

The Company accounts for stock-based compensation using the fair value recognition provisions of SFAS No. 123R, *Share-Based Payment* ("SFAS 123R") effective January 1, 2006. Prior to January 1, 2006, the Company accounted for stock-based compensation using the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123") which the Company adopted on January 1, 2003 under the prospective method as permitted by Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure* ("SFAS No. 148"). Under the fair-value method, stock-based employee compensation cost was recognized from the beginning of 2003 as if the fair value method of accounting had been used to account for all employee awards granted, modified, or settled in years beginning after December 31, 2002. The Company has provided for stock compensation expense of $4.8 million and $7.1 million for the three month periods and $32.8 million and $11.5 million for the six month periods ended June 30, 2006 and 2005, respectively, which is included in selling, general, and administrative expense in the Consolidated and Combined Statements of Earnings. The six month period ended June 30, 2006 included stock compensation expense of $24.5 million relating to the FIS performance based options granted on March 9, 2005 for which the performance and market based criteria for vesting were met during the period. There was no material impact of adopting SFAS No. 123R as all options related to the Company's employees from FNF grants that had been accounted for under other methods were fully vested as of December 31, 2005. All grants of FIS options have been accounted for under fair value accounting under SFAS 123 or SFAS 123R.

The following table illustrates the effect on net earnings for the three and six months period ended June 30, 2005 as if the Company had applied the fair value recognition provisions of SFAS No. 123 to all awards held by FIS employees, including those that were issued prior to the adoption of SFAS 123 (in thousands):

	Three month period ended June 30, 2005	Six month period ended June 30, 2005
Net earnings, as reported	$ 48,576	$ 93,172
Add: Stock-based compensation expense included in reported net earnings, net of related income tax effects	4,418	7,080
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related income tax effects	(4,572)	(7,300)
Pro forma net earnings	$ 48,422	$ 92,952
Earnings per share:		
Basic and Diluted— as reported and pro forma	$ 0.38	$ 0.73

(q) Foreign Currency Translation

The functional currency for the foreign operations of the Company is either the U.S. Dollar or the local currency. For foreign operations where the local currency is the functional currency, the translation of foreign currencies into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. The gains and losses resulting from the translation are included in accumulated other comprehensive earnings (loss) in the Consolidated Statement of Stockholders' Equity and are excluded from net earnings. Realized gains or losses resulting from other foreign currency transactions are included in other income (expense) and are insignificant in the six month periods ended June 30, 2006 and 2005.

(r) Management Estimates

The preparation of these Consolidated and Combined Financial Statements 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 at the date of the Consolidated and Combined Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The Company recognizes a reserve for estimated losses related to its card issuing business based on historical experience and other relevant factors. The Company records estimates to accrue for losses resulting from transaction processing errors by utilizing a number of systems and procedures in order to minimize such transaction processing errors. Card processing loss reserves are primarily determined by performing a historical analysis of loss experience and considering other factors that could affect that experience in the future. Such factors include the general economy and the credit quality of customers. Once these factors are considered, the Company assesses the reserve adequacy by comparing the recorded reserve to the estimated amount based on an analysis of the current trend changes or specific anticipated future events. Any adjustments are charged to costs of services. These card processing loss reserve amounts are subject to risk that actual losses may be greater than estimates.

In the Company's check guarantee business, if a guaranteed check presented to a merchant customer is dishonored by the check writer's bank, the Company reimburses the merchant customer for the check's face value and pursues collection of the amount from the delinquent check writer. Loss reserves and anticipated recoveries are primarily determined by performing a historical analysis of our check loss and recovery experience and considering other factors that could affect that experience in the future. Such factors include the general economy, the overall industry mix of customer volumes, statistical analysis of check fraud trends within customer volumes, and the quality of returned checks. Once these factors are considered, the Company establishes a rate for check losses that is calculated by dividing the expected check losses by dollar volume processed and a rate for anticipated recoveries that is calculated by dividing the anticipated recoveries by the total amount of related check losses. These rates are then applied against the dollar volume processed and check losses, respectively, each month and charged to cost of revenue. The estimated check returns and recovery amounts are subject to risk that actual amounts returned and recovered may be different than the Company's estimates.

(s) Unaudited Net Earnings per Share

Unaudited net earnings per share is calculated for all periods presented using the 200 million shares of FIS outstanding following its recapitalization on March 9, 2005, as adjusted by the exchange ratio of 0.6396 (127.9 million shares) for the Merger with Certegy Inc. on February 1, 2006 (see Note 5). The basic weighted average shares and common stock equivalents for the six month period ended June 30, 2006 only include the shares and options that were previously outstanding at Certegy from February 1, 2006 through June 30, 2006. If these shares and options had been outstanding for the entire six months of 2006, basic weighted average shares outstanding would have been approximately 192.0 million, common stock equivalents would have been 3.2 million and weighted average shares on a diluted basis would have been 195.2 million.

	Three month periods ended June 30,		Six month periods ended June 30,	
	2006	2005	2006	2005
Basic and diluted net earnings	$ 66,029	$ 48,576	$ 105,387	$ 93,172
Weighted average shares outstanding — basic	192,224	127,920	181,168	127,920
Plus: Common stock equivalent shares assumed from conversion of options	3,150	—	3,074	—
Weighted average shares outstanding — diluted	195,374	127,920	184,242	127,920
Basic net earnings per share	$ 0.34	$ 0.38	$ 0.58	$ 0.73
Diluted net earnings per share	$ 0.34	$ 0.38	$ 0.57	$ 0.73

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(4) Recapitalization of FIS and Sale of Equity Interest

On March 9, 2005, the recapitalization of FIS was completed through $2.8 billion in borrowings under new senior credit facilities consisting of an $800 million Term Loan A facility, a $2.0 billion Term Loan B facility (collectively, the “Term Loan Facilities”) and a $400 million revolving credit facility (the “Revolver”). The Company fully drew upon the entire $2.8 billion in Term Loan Facilities to complete the recapitalization while the Revolver remained undrawn at the closing. The current interest rate on the Term Loan A Facility and the Term Loan B Facility is LIBOR plus 1.25% (6.42% at June 30, 2006) and LIBOR plus 1.75% (6.92% at June 30, 2006), respectively. Bank of America, JP Morgan Chase, Wachovia Bank, Deutsche Bank and Bear Stearns led a consortium of lenders which provided the new senior credit facilities.

Concurrently, FIS sold a 25 percent equity interest to an investment group led by Thomas H. Lee Partners (THL) and Texas Pacific Group (TPG). The Company issued a total of 32 million shares of common stock of FIS (as converted for the Merger) to the investment group for a total purchase price of $500 million. A new Board of Directors was created at FIS, with William P. Foley, II, current Chairman and Chief Executive Officer of FNF, serving as Chairman and Chief Executive Officer of FIS. FNF appointed four additional members to the FIS Board of Directors, while each of THL and TPG appointed two directors. On February 1, 2006 the Company completed its Merger with Certegy and further changes were made to the Board of Directors and Lee Kennedy was appointed President and CEO of FIS (see note 5). The following steps were undertaken to consummate the recapitalization plan and equity interest sale. On March 8, 2005, the Company declared and paid a $2.7 billion dividend to FNF in the form of a note. On March 9, 2005, the Company borrowed $2.8 billion under its new senior credit facilities and then paid FNF $2.7 billion, plus interest in repayment of the note. The equity interest sale was then closed through the payment of $500 million from the investment group led by THL and TPG to the Company. The Company then repaid approximately $410 million outstanding under its November 8, 2004 credit facility. Finally, the Company paid all expenses related to the transactions. These expenses totaled $79.2 million, consisting of $33.5 million in financing fees and $45.7 million in fees relating to the equity interest sale, including placement fees payable to the investors.

(5) Acquisitions

The results of operations and financial position of the entities acquired during the six month period ended June 30, 2006 are included in the Consolidated and Combined Financial Statements from and after the date of acquisition. The purchase price of each acquisition was allocated to the assets acquired and liabilities assumed based on third party valuations with any excess cost over fair value being allocated to goodwill. There were no significant acquisitions completed during the six month period ended June 30, 2005.

Certegy Inc.

On September 14, 2005, the Company entered into a definitive merger agreement with Certegy under which the Company and Certegy combined operations to form a single publicly traded company called Fidelity National Information Services, Inc. (NYSE:FIS). Certegy was a payment processing company headquartered in St. Petersburg, Florida. On January 26, 2006, Certegy's shareholders approved the Merger which was subsequently consummated on February 1, 2006.

Under the terms of the merger agreement, the Company was merged into a wholly owned subsidiary of Certegy in a tax-free merger, and all of the Company's outstanding stock was converted into Certegy common stock. As a result of the Merger:

- The Company's pre-merger shareholders owned approximately 67.4% of the Company's outstanding common stock immediately after the Merger, while Certegy's pre-merger shareholders owned approximately 32.6%;
- FNF and its subsidiaries now own approximately 51.0% of the Company's outstanding common stock; and
- The Company's board of directors was reconstituted so that a majority of the board now consists of directors designated by the Company's shareholders.

In connection with the Merger, Certegy amended its articles of incorporation to increase the number of authorized shares of capital stock from 400 million shares to 800 million shares, with 600 million shares being designated as common stock and 200 million shares being designated as preferred stock. Additionally, Certegy amended its stock incentive plan to increase the total number of shares of common stock available for issuance under the current stock incentive plan by an additional 6 million shares, and to increase the limits on the number of options, restricted shares, and other awards that may be granted to any individual in any calendar year. These changes were approved by Certegy's shareholders on January 26, 2006.

As part of the Merger transaction, Certegy declared a $3.75 per share special cash dividend that was paid to Certegy's pre-merger shareholders. This dividend, totaling $236.6 million, was paid by Certegy at the consummation of the Merger.

Generally accepted accounting principles in the U.S. require that one of the two companies in the transaction be designated as the acquirer for accounting purposes. The Company has been designated as the accounting acquirer because immediately after the Merger its shareholders held more than 50% of the common stock of the Company. As a result, the Merger has been accounted for as a reverse acquisition under the purchase method of accounting. Under this accounting treatment, the Company will be considered the acquiring entity and Certegy will be considered the acquired entity for financial reporting purposes. The financial statements of the combined company after the Merger reflect the Company's financial results on a historical basis and include the results of operations of Certegy from February 1, 2006.

The purchase price was based on the number of outstanding shares of common stock of Certegy on February 1, 2006, the date of consummation of the Merger, valued at $33.38 per share (which was the average of the trading price of Certegy common stock two days before and two days after the announcement of the Merger on September 15, 2005 of $37.13, less the $3.75 per share special dividend declared prior to closing). The purchase price also included the estimated fair value of Certegy's stock options and restricted stock units outstanding at the transaction date.

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The total purchase price is as follows (in millions):

Value of Certegy's common stock	$ 2,121.0
Value of Certegy's stock options	54.2
FIS's estimated transaction costs	5.9
	$ 2,181.1

The purchase price has been allocated to Certegy's tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values as of February 1, 2006. Goodwill has been recorded based on the amount that the purchase price exceeds the fair value of the net assets acquired. The purchase price allocation is as follows (in millions):

Cash	$ 376.3
Trade and other receivables	241.2
Land, buildings, and equipment	72.4
Other assets	139.8
Computer software	143.6
Intangible assets	657.5
Goodwill	1,888.9
Liabilities assumed	(1,338.6)
Total purchase price	$ 2,181.1

The allocation of the purchase price to intangible assets, including computer software, is based on studies and valuations that are currently being finalized. Such purchase accounting adjustments may be refined as additional information becomes available.

The following table summarizes the liabilities assumed in the Merger (in millions):

Notes payable and capital lease obligations	$ 222.8
Deferred income taxes	260.4
Dividends payable	236.6
Dividend bridge loan	239.0
Liabilities associated with pension, SERP, and postretirement benefit plans	32.6
Estimated severance payments to certain Certegy employees	10.0
Estimated employee relocation and facility closure costs	9.5
Other merger related	28.5
Other operating liabilities	299.2
	$ 1,338.6

In connection with the Merger, the Company announced that it will terminate and settle the Certegy U.S. Retirement Income Plan (pension plan). The estimated impact of this settlement was reflected in the purchase price allocation as an increase in the pension liability, less the fair value of the pension plan assets, based on estimates of the total cost to settle the liability through the purchase of annuity contracts or lump sum settlements to the beneficiaries. The final settlement will not occur until after an IRS determination has been obtained, which is expected to be received in 2007. In addition to the pension plan obligation, the Company assumed liabilities for Certegy's Supplemental Executive Retirement Plan ("SERP") and Postretirement Benefit Plan. The total liability recorded as part of the purchase price allocation related to all three plans, net of the fair value of plan related assets, was $32.6 million.

The Company has evaluated certain lease agreements and vendor arrangements of Certegy. This evaluation has resulted in the recognition of certain liabilities associated with exiting activities of the acquired company. Modification to the amounts recorded related to the closure of duplicate facilities, employee relocation, or vendor contract terminations could result in changes in the assumed liabilities and goodwill in subsequent periods, though any changes are not expected to be significant.

Also, the Merger triggered the performance criteria relating to FIS's performance stock option grant made in March 2005 and these awards vested when the trading value of the Company's stock remained above $31.27 for 45 consecutive trading days following the Merger. As a result, the Company recorded a charge of $24.1 million in the first quarter of 2006 and recorded an additional $0.4 million in the second quarter of 2006 relating to these options that became fully vested on April 7, 2006.

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Kordoba

On September 30, 2005, the Company completed a step acquisition and acquired the remaining 25.1% of KORDOBA Gesellschaft fur Bankensoftware mbH & Co. KG, Munich, or Kordoba, a provider of core processing software and outsourcing solutions to the German banking market, from Siemens Business Services GmbH & Co. OHG (Siemens). The original purchase of 74.9% was completed September 30, 2004. The total acquisition price was $163.2 million in cash (which includes $39.7 million for the minority interest purchase). The Company recorded the Kordoba acquisition based on its proportional share of the fair value of the assets acquired and liabilities assumed on the respective purchase dates.

The assets acquired and liabilities assumed in the Kordoba acquisition (including the 25.1% minority interest acquisition) were as follows (in thousands):

Tangible assets	$ 122,938
Computer software	34,039
Intangible assets	35,372
Goodwill	105,664
Liabilities assumed	(134,767)
Total purchase price	$ 163,246

Selected unaudited pro forma combined results of operations for the six month periods ended June 30, 2006 and 2005, assuming the Certegy Merger and the Kordoba minority interest acquisition had occurred as of January 1, 2005, and using actual general and administrative expenses prior to the acquisition are set forth below (in thousands):

	Six month periods ended June 30,	
	2006	2005
Total revenue	$2,015,797	$1,898,774
Net earnings	$ 59,156	$ 104,379
Pro forma earnings per share — basic	$ 0.30	$ 0.55
Pro forma earnings per share — diluted	$ 0.30	$ 0.55

The June 30, 2006 pro forma results include pretax merger related costs recorded in January 2006 by Certegy of $79.7 million and a pretax charge of $24.5 million related to FIS performance-based stock compensation.

Other Transactions:

Banco Bradesco S.A. and Banco ABN AMRO Real

On March 28, 2006, the Company signed a definitive agreement to form a venture with Banco Bradesco S.A. and Banco ABN AMRO Real to provide comprehensive, fully outsourced credit and prepaid card processing services to Brazilian card issuers. This venture will position the Company as the leading third-party card processor in Brazil. The Company will make investments of approximately $100 million through 2008, including $25 million in 2006, and will transfer ownership of its existing Brazilian card operation to the new venture. This venture is consolidated into the Company’s financial statements based on the Company’s controlling interest in the venture.

FastFunds

On February 1, 2006, the Company acquired certain assets of FastFunds, and its wholly-owned subsidiary Chex Services, for $14.0 million in cash. FastFunds, through Chex Services, provides comprehensive cash access services including check cashing, automated teller machine access, and credit and debit card cash advance services to approximately 50 casinos in the U.S., Canada and the Caribbean.

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(6) Investment in Covansys Corporation

On September 15, 2004, FNF acquired 11 million shares of common stock and warrants to purchase 4 million additional shares of Covansys Corporation (Covansys), a publicly traded U.S. based provider of application management and offshore outsourcing services with India based operations for $121.0 million in cash. FNF subsequently contributed the common stock and warrants to the Company which resulted in the Company owning approximately 29% of the common stock of Covansys. The Company accounts for the investment in common stock using the equity method of accounting and, until March 24, 2005, accounted for the warrants under SFAS No. 133. Under SFAS No. 133, the warrants were considered derivative instruments and were recorded at a fair value of approximately $23.5 million on the date of acquisition. On March 25, 2005, the terms of the warrants were amended to add a mandatory holding period subsequent to exercise of the warrants and eliminate a cashless exercise option available to the Company. Following these amendments, the accounting for the warrants is now governed by the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and changes in the fair value of the warrants are recorded through equity in other comprehensive earnings.

An unaudited summary consolidated balance sheet of Covansys for June 30, 2006 and December 31, 2005 is as follows (in thousands):

	June 30, 2006	December 31, 2005
Current assets	$ 212,793	$ 204,637
Property and equipment	34,292	36,656
Goodwill	22,454	21,893
Other assets	8,695	8,075
Total assets	$ 278,234	$ 271,261
Current liabilities	$ 59,607	$ 59,727
Other liabilities	5,042	3,674
Shareholders’ equity	213,585	207,860
Total liabilities and shareholders’ equity	$ 278,234	$ 271,261

An unaudited summary income statement for Covansys for the three and six month periods ended June 30, 2006 and 2005 is as follows (in thousands):

	Three month periods ended June 30,		Six month periods ended June 30,	
	2006	2005	2006	2005
Revenue	$117,981	$108,708	$227,758	$212,981
Net income	$ 10,339	$ 11,248	$ 15,296	$ 19,305

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(7) Property and Equipment

Property and equipment as of June 30, 2006 and December 31, 2005 consists of the following (in thousands):

	June 30, 2006	December 31, 2005
Land	$ 20,731	$ 9,235
Buildings	107,207	90,031
Leasehold improvements	46,186	33,779
Computer equipment	274,121	212,790
Furniture, fixtures, and other equipment	87,415	61,435
	535,660	407,270
Accumulated depreciation and amortization	(235,404)	(186,845)
	$ 300,256	$ 220,425

Depreciation and amortization expense on property and equipment amounted to $25.1 million and $15.3 million for the three month periods and $48.6 million and $31.0 million for the six month periods ended June 30, 2006 and 2005, respectively.

The Company, through the Merger with Certegy (note 5), is the tenant of certain real property located in St. Petersburg, Florida (the “Florida Leased Property”) pursuant to the terms of a synthetic lease agreement entered into by Certegy on December 30, 1999 (the “Florida Lease”) with a variable interest entity (the “VIE”), as landlord. The term of the Florida Lease expires on September 17, 2009, but can be renewed through September 17, 2014. In accordance with certain provisions of FASB Interpretation No. 46 (revised 2003), “*Consolidation of Variable Interest Entities, and Interpretation of Accounting Research Bulletin No. 51*” (“FIN 46”), the value of the property, equipment and debt related to the VIE is included in the Company’s consolidated balance sheet at the fair value on the date of acquisition. At June 30, 2006, the book value of the land, building and leasehold improvements related to the VIE which is included in the Consolidated Balance Sheet was $28.3 million, net of accumulated depreciation.

(8) Goodwill

Changes in goodwill, net of purchase accounting adjustments, during the six month periods ended June 30, 2006 are summarized as follows (in thousands):

	Transaction Processing Services	Lender Processing Services	Total
Balance, December 31, 2005	$ 706,432	$ 1,081,281	$ 1,787,713
Goodwill acquired during 2006	1,910,187	—	1,910,187
Balance, June 30, 2006	$ 2,616,619	$ 1,081,281	$ 3,697,900

(9) Intangible Assets

Intangible assets, as of June 30, 2006, consist of the following (in thousands):

	Cost	Accumulated Amortization	Net
Customer relationships	$ 1,227,899	$ 376,548	$ 851,351
Trademarks	241,459	—	241,459
	$ 1,469,358	$ 376,548	$ 1,092,810

Intangible assets, as of December 31, 2005, consist of the following (in thousands):

	Cost	Accumulated Amortization	Net
Customer relationships	$ 756,403	$ 292,731	$ 463,672
Trademarks	45,108	—	45,108
	$ 801,511	$ 292,731	$ 508,780

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Amortization expense for intangible assets with definite lives was $44.0 million and $33.4 million for the three month periods and $83.8 million and $68.2 million for the six month periods ended June 30, 2006 and 2005, respectively. Intangible assets, other than those with indefinite lives, are amortized over their estimated useful lives ranging from 5 to 10 years using accelerated methods.

(10) Computer Software

Computer software as of June 30, 2006 and December 31, 2005 consists of the following (in thousands):

	June 30, 2006	December 31, 2005
Software from business acquisitions	$ 470,880	$ 327,346
Capitalized software development costs	358,059	264,537
Purchased software	77,774	69,040
Computer software	906,713	660,923
Accumulated amortization	(272,994)	(208,930)
Computer software, net of accumulated amortization	$ 633,719	$ 451,993

Amortization expense for computer software was $35.2 million and $21.7 million for the three month periods and $64.1 million and $45.1 million for the six month periods ended June 30, 2006 and 2005, respectively.

(11) Deferred Contract Costs

A summary of deferred contract costs as of June 30, 2006 and December 31, 2005 is as follows (in thousands):

	June 30, 2006	December 31, 2005
Installations and conversions in progress	$ 64,323	$ 48,574
Installations and conversions completed, net	135,634	116,381
Other, net	30,186	18,308
Total deferred contract costs	$ 230,143	$ 183,263

Amortization of deferred contract costs was $6.1 million and $4.9 million for the three month periods and $10.7 million and $6.8 million for the six month periods ended June 30, 2006 and 2005, respectively.

(12) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of June 30, 2006 and December 31, 2005 consists of the following (in thousands):

	June 30, 2006	December 31, 2005
Salaries and incentives	$ 79,376	$ 96,492
Accrued benefits	35,473	24,346
Trade accounts payable	78,175	43,648
Accrued merger related costs	26,851	—
Other accrued liabilities	187,825	145,105
	$ 407,700	$ 309,591

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(13) Long-Term Debt

Long-term debt as of June 30, 2006 and December 31, 2005 consists of the following (in thousands):

	June 30, 2006	December 31, 2005
Term Loan B Facility, secured, interest payable at LIBOR plus 1.75% (6.92% at June 30, 2006), 0.25% quarterly principal amortization, due March 2013	$1,730,000	$ 1,760,000
Term Loan A Facility, secured, interest payable at LIBOR plus 1.25% (6.42% at June 30, 2006), 0.25% quarterly principal amortization, due March 2011	790,000	794,000
Unsecured notes, net of discount, interest payable semiannually at 4.75%, due September 2008	194,779	—
Revolving credit facility, secured, interest payable at LIBOR plus 1.25% (Eurodollar borrowings) and Prime plus 0.25% (Base Rate borrowings), (6.57% and 8.50% at June 30, 2006) unused portion of $270,000 at June 30, 2006, maturing March 2011	130,000	—
Other promissory notes with various interest rates and maturities	34,534	10,128
	2,879,313	2,564,128
Less current portion	(15,629)	(33,673)
Long-term debt, excluding current portion	$2,863,684	$ 2,530,455

On March 9, 2005, the Company entered into a Credit Agreement with Bank of America, as Administrative Agent and other financial institutions (the "Credit Agreement").

The Credit Agreement provides for an $800 million six-year term facility ("Term A Loans"), a $2.0 billion eight-year term facility ("Term B Loans") and a $400 million revolving credit facility ("Revolving Credit Facility") maturing on the sixth anniversary of the closing date. The term facilities were fully drawn on the closing date while the revolving credit facility was undrawn on the closing date. The Company has provided an unconditional guarantee of the full and punctual payment of the obligations under the Credit Agreement and related loan documents.

Under the terms of the Credit Agreement, the Company has granted a first priority (subject to certain exceptions) security interest in substantially all of its personal property, including shares of stock and other ownership interests.

Through the Merger with Certegy, the Company has an obligation to service $200 million (aggregate principal amount) of unsecured 4.75% fixed-rate notes due in 2008. The notes were recorded in purchase accounting at a discount of $5.7 million, which is being amortized over the term of the notes. The notes accrue interest at a rate of 4.75% per year, payable semi-annually in arrears on each March 15 and September 15.

Amounts under the Revolving Credit Facility may be borrowed, repaid and re-borrowed from time to time until the maturity of the Revolving Credit Facility. The term facilities are subject to quarterly amortization of principal in equal installments of 0.25% of the principal amount with the remaining balance payable at maturity. In addition to the scheduled amortization, and with certain exceptions, the term loans are subject to mandatory prepayment from excess cash flow, issuance of additional equity and debt and certain sales of assets. Voluntary prepayments of both the term loans and revolving loans and commitment reductions of the Revolving Credit Facility under the Credit Agreement are permitted at any time without fee upon proper notice and subject to a minimum dollar requirement. Revolving credit borrowings and Term A Loans bear interest at a floating rate, which will be, at the Company's option, either the British Bankers Association LIBOR or a base rate plus, in both cases, an applicable margin, which is subject to adjustment based on the performance of the Company. The Term B Loans bear interest at either the British Bankers Association LIBOR plus 1.75% per annum or, at the Company's option, a base rate plus 0.75% per annum.

The credit facilities contain affirmative, negative, and financial covenants customary for financings of this type, including, among other things, limits on the creation of liens, limits on the incurrence of indebtedness, restrictions on investments and dispositions, limitations on dividends and other restricted payments and capital expenditures, a minimum interest coverage ratio, and a maximum secured leverage ratio. The Company's management believes that the Company is in compliance with all covenants related to the credit agreements at June 30, 2006.

On April 11, 2005, the Company entered into interest rate swap agreements which have effectively fixed the interest rate at approximately 6.1% through April 2008 on $350 million of the Term Loan B Facility and at approximately 5.9% through April 2007 on an additional $350 million of the Term Loan B Facility. The Company has designated these interest rate swaps as cash flow hedges in accordance with SFAS No. 133. The estimated fair value of the cash flow hedges results in an asset to the Company of $10.6 million and $5.2 million, as of June 30, 2006 and December 31, 2005, respectively, which is included in the accompanying Consolidated Balance Sheets in other noncurrent assets and as a component of accumulated other comprehensive earnings, net of deferred taxes. A portion of the amount included in accumulated other comprehensive earnings is reclassified into interest expense as a yield adjustment as interest payments are made on the Term Loan B Facility. The Company's existing cash flow hedges are highly effective and there is no current impact on earnings due to hedge ineffectiveness. It is the policy of the Company to execute such instruments with credit-worthy banks and not to enter into derivative financial instruments for speculative purposes.

Principal maturities for the remaining six months ending December 31, 2006 and the twelve months of each of the following years and thereafter are as follows (in thousands):

2006	$ 11,630
2007	22,540
2008	222,779
2009	50,364
2010	28,000
Thereafter	2,544,000
Total	$ 2,879,313

(14) Commitments and Contingencies

Litigation

In the ordinary course of business, the Company is involved in various pending and threatened litigation matters related to its operations, some of which include claims for punitive or exemplary damages. The Company believes that no actions, other than those listed below, depart from customary litigation incidental to its business. As background to the disclosure below, please note the following:

- These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including but not limited to the underlying facts of each matter, novel legal issues, variations between jurisdictions in which matters are being litigated, differences in applicable laws and judicial interpretations, the length of time before many of these matters might be resolved by settlement or through litigation and, in some cases, the timing of their resolutions relative to other similar cases brought against other companies and the current challenging legal environment faced by large corporations.

- In these matters, plaintiffs seek a variety of remedies including equitable relief in the form of injunctive and other remedies and monetary relief in the form of compensatory damages. In most cases, the monetary damages sought include punitive or treble damages. Often more specific information beyond the type of relief sought is not available because plaintiffs have not requested more specific relief in their court pleadings. In general, the dollar amount of damages sought is not specified. In those cases where plaintiffs have made a specific statement with regard to monetary damages, they often specify damages just below a jurisdictional limit regardless of the facts of the case. This represents the maximum they can seek without risking removal from state court to federal court. In the Company's experience, monetary demands in plaintiffs' court pleadings bear little relation to the ultimate loss, if any, the Company may experience.

- The Company reviews these matters on an on-going basis and follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies" when making accrual and disclosure decisions. When assessing reasonably possible and probable outcomes, the Company bases its decision on its assessment of the ultimate outcome following all appeals.

- In the opinion of the Company's management, while some of these matters may be material to the Company's operating results for any particular period if an unfavorable outcome results, none will have a material adverse effect on the Company's overall financial condition.

The Company, together with FNF and certain of its employees, were named on March 6, 2006 as defendants in a civil lawsuit brought by Grace & Digital Information Technology Co., Ltd. ("Grace"), a Chinese company that formerly acted as a sales agent for Alltel Information Services ("AIS").

Grace originally filed a lawsuit in December 2004 in state court in Monterey County, California, alleging that FIS breached the sales agency agreement between Grace and AIS by failing to pay Grace commissions on certain contracts in 2001 and 2003. However, the 2001 contracts were never completed and the 2003 contracts, as to which Grace provided no assistance, were for a different project and were executed one and one-half years after FIS terminated the sales agency agreement with Grace. In addition to its breach of contract claim, Grace also alleged that FNF violated the Foreign Corrupt Practices Act (FCPA) in its dealings with a bank customer in China. FNF denied Grace's allegations in this California lawsuit.

In December 2005, the Monterey County court dismissed the lawsuit on the grounds of inconvenient forum. Further, on March 6, 2006, Grace filed a new lawsuit in the United States District Court for the Middle District of Florida arising from the same transaction, and added an additional allegation to its complaint that FNF violated the Racketeer Influenced and Corrupt Organizations Act (RICO) in its dealings with the same bank customer. FNF and its subsidiaries intend to defend this case vigorously. On March 7, 2006, FNF filed its motion to dismiss this lawsuit, and on March 27, 2006, FNF filed an answer denying Grace's underlying allegations and counterclaiming against Grace for tortious interference with contract and abuse of process. These motions have all been fully briefed and are pending before the Court. A pretrial management order has been entered providing for discovery, pretrial motion deadlines, and, if necessary, a trial in the later part of 2007.

FNF and its counsel have investigated these allegations and, based on the results of the investigations, FNF does not believe that there have been any violations of the FCPA or RICO, or that the ultimate disposition of these allegations or the lawsuit will have a material adverse impact on FNF's or any of its subsidiaries' financial position, results of operations or cash flows. FNF and its subsidiaries, including FIS, have fully cooperated with the Securities and Exchange Commission and the U.S. Department of Justice in connection with their inquiry into these allegations.

On July 15, 2004, Sourceprose Corporation ("SP") filed a complaint in the U.S. District Court, Eastern District of Texas, Marshall Division, against FNF and four of the Company's subsidiaries, Fidelity National Information Solutions, Inc., Fidelity Information Services, Inc., FNIS Flood Services, L.P. (d/b/a LSI Flood Services) and Geotrac, Inc. (collectively, the "Fidelity Defendants"). SP alleged that it is the owner assignee of certain patents covering systems and methods for performing manually assisted flood zone determinations, which have been infringed by the Fidelity Defendants' use of certain practices within the scope of such patents, including the performance of manually assisted flood zone determinations. On April 12, 2006, SP and the Fidelity defendants entered into a Settlement Agreement resolving the dispute and dismissing the lawsuit.

Indemnifications and Warranties

The Company often indemnifies its customers against damages and costs resulting from claims of patent, copyright, or trademark infringement associated with use of its software through software licensing agreements. Historically, the Company has not made any 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 costs have been incurred related to software warranties and none are expected in the future, and as such no accruals for warranty costs have been made.

Escrow Arrangements

In conducting its operations, the Company routinely holds customers' assets in escrow, pending completion of real estate transactions. Certain of these amounts are maintained in segregated bank accounts and have not been included in the accompanying Consolidated and Combined Balance Sheets. The Company has a contingent liability relating to proper disposition of these balances, which amounted to $2.7 billion at June 30, 2006. As a result of holding these customers' assets in escrow, the Company has ongoing programs for realizing economic benefits during the year through favorable borrowing and vendor arrangements with various banks. There were no investments or loans outstanding as of June 30, 2006 related to these arrangements.

Leases

The Company leases certain of its property under leases which expire at various dates. Several of these agreements include escalation clauses and provide for purchases and renewal options for periods ranging from one to five years.

Future minimum operating lease payments for leases with remaining terms greater than one year for each of the years in the five years ending December 31, 2010, and thereafter in the aggregate, are as follows (in thousands):

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2006	$ 26,325
2007	43,647
2008	34,487
2009	25,528
2010	15,494
Thereafter	18,554
Total	$ 164,035

In addition, the Company has operating lease commitments relating to office equipment and computer hardware with annual lease payments of approximately $15 million per year which renew on a short-term basis.

Rent expense incurred under all operating leases during the three and six month periods ended June 30, 2006 and 2005 was $15.9 million and $14.7 million, and $31.2 million and $32.6 million, respectively.

Data Processing Services Agreements. The Company, through the Merger with Certegy (Note 5), has agreements with IBM and Proceda, which expire between 2007 and 2017, for portions of its computer data processing operations and related functions. The Company's estimated aggregate contractual obligation remaining under these agreements is approximately $637.7 million as of June 30, 2006. However, this amount could be more or less depending on various factors such as the inflation rate, the introduction of significant new technologies, or changes in the Company's data processing needs as a result of the Merger. The Company is in the process of evaluating certain of these agreements and, as part of the integration plans resulting from the Merger, may ultimately terminate some of these agreements. The Company must pay a termination charge in the event of such a termination.

Synthetic Leases. As discussed in Note 7, the Company is the tenant of the Florida Leased Property. The original cost to the lessor of the Florida Leased Property when Certegy entered into the Florida Lease was approximately $23.2 million. Subject to the satisfaction of certain conditions, upon the expiration (or any earlier termination) of the Florida Lease, the Company will be obligated to acquire the Florida Leased Property at its original cost.

Additionally, the February 1, 2006 amendment to the Florida Lease also includes a provision that would require the Company to purchase the Florida Leased Property at its original cost if, by May 1, 2006, the lender financing the Florida Lease has concluded either that: (i) the current value of the Florida Leased Property (as reflected on an appraisal being performed at the direction of the lender) is not sufficient for the original cost of the Florida Leased Property to constitute no more than 70% of the current value (but, instead of being required to purchase the Florida Leased Property, the Company will have the right to repay a sufficient portion of the lessor's original cost to maintain such 70% limit); or (ii) environmental conditions exist in connection with the Florida Leased Property (other than to the extent previously disclosed by the Company to the lender) that could adversely affect the Florida Leased Property.

The Florida Lease was subsequently amended on April 28, 2006 to (i) provide the lender with the right to obtain appraisals on the Florida Leased property in the future; and (ii) if the current value of the Florida Leased Property (as reflected in the most recently obtained appraisal) is not sufficient for the original cost of the Florida Leased Property to constitute no more than 70% of the current value, provide the Lender with the right to demand that the Company (at the Company's election) either prepay the lease balance or provide cash collateral so that after giving effect to such prepayment or cash collateral the current value of the Florida Lease Property (as reflected in such appraisal) is sufficient for the original cost of the Florida Leased Property to constitute no more than 70% of the current value.

The Company also has a synthetic lease arrangement (the "Wisconsin Lease") which is not included in the Company's consolidated balance sheets with respect to its facilities in Madison, Wisconsin (the "Wisconsin Leased Property"). In connection with the Merger, the term of the Wisconsin Lease was amended so that it is scheduled to expire on December 31, 2006. The original cost to the lessor of the Wisconsin Leased Property when Certegy entered into the Wisconsin Lease was approximately $10.1 million. Subject to the satisfaction of certain conditions, the Company has the option to acquire the Wisconsin Leased Property at its original cost, or to direct the sale of the Wisconsin Leased Property to a third party.

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At the expiration of the term of the Wisconsin Lease, if the Wisconsin Leased Property has not been purchased by the Company or sold to a third party at the direction of the Company, the lessor may elect to sell the Wisconsin Leased Property. If the proceeds of such a sale do not cover a specified percentage of the original cost of the Wisconsin Leased Property, then pursuant to the provisions of a residual value guarantee made by the Company to the lessor and its lender, the Company is obligated to pay any resulting shortfall (but not more than approximately $8.1 million). Based on the current fair market value of the Wisconsin Leased Property, the Company does not expect to be required to make payments under this residual value guarantee.

(15) Employee Benefit Plans

Stock Option Plans

In 2005, the Company adopted the Fidelity National Information Services, Inc. 2005 Stock Incentive Plan (the “Plan”). As of June 30, 2006, there were 8,154,745 options outstanding under this plan at a strike price of $15.63 per share (as adjusted for the .6396 exchange ratio in the Certegy transaction). These stock options were granted at the fair value of the Company’s stock on the grant date based on the price for which the Company sold 32 million shares (a 25% interest) to the financial sponsors in the recapitalization transaction on March 9, 2005. The Plan provides for the grant of stock options and restricted stock, representing up to 10,371,892 shares. The options granted thus far under this plan have a term of 10 years and vest over either a 4 or 5 year period (the “time-based options”) on a quarterly basis or based on specific performance criteria (the “performance-based options”). The time-based options vest with respect to 1/16 or 1/20 of the total number of shares subject to such time-based options on the last day of each fiscal quarter. The performance-based options vest for certain key employees in the event of a change in control or after an initial public offering solely if one of the following targets shall be met: (a) 50% of the total number of shares subject to such performance based options vest if the public trading value of a share of common stock equals at least $27.36 and (b) 100% of the total number of shares subject to such performance based options will vest if the public trading value of a share of common stock equals at least $31.27, provided the optionee’s service has not terminated prior to the applicable vesting date. For the remaining employees, vesting of the performance-based options occurs in the event of a change in control or an initial public offering and if the public trading value of common stock equals at least $31.27 provided the optionee’s service with FIS has not terminated prior to the applicable vesting date.

Through the Merger with Certegy, the Company assumed the Certegy Inc. Stock Incentive Plan that provides for the issuance of qualified and non-qualified stock options to officers and other key employees at exercise prices not less than market on the date of grant. All options and awards outstanding prior to the Merger under the Certegy Plan were fully vested as of the Merger date. As part of the Merger, the Certegy shareholders approved amendments to the plan and approved an additional 6 million shares to be made available under the plan. During the period from February 1, 2006 through June 30, 2006, the Company has granted 1,912,500 options under this plan. There were 5,417,449 options outstanding under this plan at June 30, 2006.

Certain FIS employees are participants in FNF’s stock-based compensation plans, which provide for the granting of incentive and nonqualified stock options, restricted stock and other stock-based incentive awards for officers and key employees. Grants of incentive and nonqualified stock options under these plans have generally provided that options shall vest equally over three years and generally expire ten years after their original date of grant. All options granted under these plans have an exercise price equal to the market value of the underlying common stock on the date of grant. There were no FNF options granted to FIS employees in the six month periods ended June 30, 2006 and 2005. The Company recorded expense relating to FNF options of $0.6 million and $3.6 million in the three month periods and $1.5 million and $7.4 million in the six month periods ended June 30, 2006 and 2005, respectively, relating to FNF options granted prior to 2005.

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The following schedule summarizes the stock option activity for the six months ended June 30, 2006:

	Shares	Weighted Average Exercise Price
Balance, December 31, 2005	8,985,421	$ 15.63
Assumed in Certegy Merger	4,419,788	27.23
Granted	1,912,500	38.60
Former Certegy Options Exercised	(902,097)	28.39
FIS Options Exercised	(765,264)	15.63
Cancelled	(78,154)	18.26
Balance, June 30, 2006	13,572,194	$ 21.78

The intrinsic value of options exercised during the six months ended June 30, 2006 was $27.1 million. There were no options exercised during the six months ended June 30, 2005.

The following table summarizes information related to stock options outstanding and exercisable as of June 30, 2006:

	Outstanding Options				Exercisable Options			
Range of Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Intrinsic Value at June 30, 2006 (in thousands)	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Intrinsic Value at June 30, 2006 (in thousands)
$15.63-$15.63	8,154,745	8.75	$15.63	$161,219	4,994,766	8.75	$15.63	$ 98,747
$16.03-$18.22	608,284	3.86	17.13	11,111	608,284	3.86	17.13	11,111
$19.20-$22.99	545,247	5.08	21.99	7,310	545,247	5.08	21.99	7,310
$24.09-$29.38	538,468	4.12	26.32	4,890	538,468	4.12	26.32	4,890
$29.74-$30.56	296,926	4.47	29.77	1,673	296,926	4.47	29.77	1,673
$31.94-$31.94	712,365	5.62	31.94	2,463	712,365	5.62	31.94	2,463
$32.06-$32.44	754,236	5.75	32.25	2,379	754,236	5.75	32.25	2,379
$32.82-$35.25	15,650	6.13	33.70	27	15,650	6.13	33.70	27
$35.25-$35.26	11,889	6.22	35.26	2	11,889	6.22	35.26	2
$37.31-$39.48	1,912,500	6.59	38.60	—	—	—	—	—
$39.75-$39.75	21,884	0.88	39.75	—	21,884	0.88	39.75	—
$15.63 –$39.75	13,572,194	5.67	$21.78	$191,074	8,499,715	5.67	$20.28	$128,602

The Company accounts for stock-based compensation using the fair value recognition provisions of SFAS No. 123R, *Share-Based Payment* ("SFAS 123R") effective as of January 1, 2006. Prior to January 1, 2006, the Company accounted for stock-based compensation using the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123") which the Company adopted on January 1, 2003 under the prospective method as permitted by Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure* ("SFAS No. 148"). Under this method, stock-based employee compensation cost was recognized from the beginning of 2003 as if the fair value method of accounting had been used to account for all employee awards granted, modified, or settled in years beginning after December 31, 2002. The Company has provided for stock compensation expense of $4.8 million, $7.1 million, $32.8 million and $11.5 million for the three and six month periods ended June 30, 2006 and 2005, respectively, which is included in selling, general, and administrative expenses in the Consolidated and Combined Statements of Earnings. The six month period ended June 30, 2006 included stock compensation expense of $24.5 million relating to the FIS performance-based options granted on March 9, 2005 for which the performance and market criteria for vesting were met during the quarter. There was no material impact of adopting SFAS No. 123R as all options related to the Company's employees from FNF grants that had been accounted for under other methods were fully vested as of December 31, 2005. All grants of FIS options have been accounted for under fair value accounting under SFAS 123 or SFAS 123R.

The fair value relating to the time-based options granted by the Company in 2005 was estimated using a Black-Scholes option-pricing model, while the fair value relating to the performance-based options was estimated using a Monte-Carlo option pricing model due to the vesting characteristics of those options, as discussed above. The following assumptions were used for the 4,798,747 time-based options granted in 2005; the risk free interest rate was 4.2%, the volatility factor for the expected market price of the common stock was 44%, the expected dividend yield was zero and weighted average expected life was 5 years. The fair value of each time-based option was $6.79. Since the Company was not publicly traded when the majority of the FIS options were issued, the Company relied on industry peer data to determine the volatility assumption and for the expected life assumption, the Company used an average of several methods, including FNF's historical exercise history, peer firm data, publicly available industry data and the Safe Harbor approach as stated in the SEC Staff Accounting Bulletin 107. The following assumptions were used for the valuation of the 4,199,466 performance-based options granted in 2005: the risk free interest rate was 4.2%, the volatility factor for the expected market price of the common stock was 44%, the expected dividend yield was zero and the objective time to exercise was 4.7 years with an objective in the money assumption of 2.95 years. It was also expected that the initial public offering assumption would occur within a 9 month period from grant date. The fair value of the performance-based options was calculated to be $5.85. The fair value for FIS options granted in 2006 was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions. The risk free interest rates used in the calculation are the rate that corresponds to the weighted average expected life of an option. The risk free interest rate used for options granted during the first six months of 2006 was 4.54%. A volatility factor for the expected market price of the common stock of 30% was used for options granted in the first six months of 2006. The expected dividend yield used for the first six months of 2006 was 0.5%. A weighted average expected life of 6 years was used for the first six months of 2006. The weighted average fair value of each option granted during the first six months of 2006 was $14.41.

At June 30, 2006, the total unrecognized compensation cost related to non-vested stock option grants is $46.3 million, which is expected to be recognized in pre-tax income over a weighted average period of 2.0 years.

The Company intends to limit dilution caused by option exercises by repurchasing shares on the open market or in privately negotiated transactions. During the six month period ended June 30, 2006, the Company repurchased 1,727,600 shares at an average price of $37.63 under this program. Subsequent to June 30, 2006, the Company repurchased another 1,101,600 shares at an average price of $35.20. Under the current plan approved by the Company's Board of Directors, 170,800 shares remain available for repurchase.

Defined Benefit Plans

In connection with the Kordoba acquisition, the Company assumed Kordoba's unfunded, defined benefit plan obligations. These obligations relate to retirement benefits to be paid to Kordoba's employees upon retirement. Also, in connection with the Certegy acquisition, the Company assumed additional defined benefit obligations related to retirement income (pension) and postretirement healthcare and life insurance plans (see Note 5). The Company has initiated a termination and settlement of the Certegy pension plan obligations and, therefore, the impact of service and other costs related to the pension plan is insignificant.

The total benefit costs for the six month periods ended June 30, 2006 and 2005 for these plans were as follows (in thousands):

	Three month periods ended June 30,		Six month periods ended June 30,	
	2006	2005	2006	2005
Service cost	$ 393	$ 315	$ 854	$ 630
Interest cost	217	225	470	450
Total benefit costs	$ 610	$ 540	$ 1,324	$ 1,080

(16) Concentration of Risk

The Company generates a significant amount of revenue from large customers, however, no customers accounted for more than 10% of total revenue or total segment revenue in the six month periods ended June 30, 2006 and 2005.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents and trade receivables.

The Company places its cash equivalents with high credit quality financial institutions and, by policy, limits the amount of credit exposure with any one financial institution. Investments in commercial paper of industrial firms and financial institutions are rated investment grade by nationally recognized rating agencies.

Concentrations of credit risk with respect to trade receivables are limited because a large number of geographically diverse customers make up the Company's customer base, thus spreading the trade receivables credit risk. The Company controls credit risk through monitoring procedures.

(17) Segment Information

Upon completion of the Certegy Merger, the Company implemented a new organizational structure, which resulted in a new operating segment structure beginning with the reporting of first quarter 2006 results. Effective as of February 1, 2006, the Company's operating segments are Transaction Processing Services, or TPS, and Lender Processing Services, or LPS. This structure reflects how the businesses are operated and managed. The primary components of the TPS segment, which includes Certegy's Card and Check Services and the financial institution processing component of the former Financial Institution Software and Services segment of FIS, are our Enterprise Solutions and Integrated Financial Solutions and International businesses. The primary components of the LPS segment are our Mortgage Processing and Origination Services businesses, which include the mortgage lender processing component of the former Financial Institution Software and Services segment of FIS, and the former Lender Services, Default Management, and Information Services segments of FIS.

Summarized financial information concerning the Company's segments is shown in the following tables.

As of and for the three month periods ended June 30, 2006 (in thousands):

	Transaction Processing Services	Lender Processing Services	Corporate and Other	Total
Processing and services revenues	$ 612,076	$ 408,081	$ 1,789	$ 1,021,946
Cost of revenues	474,648	245,070	—	719,718
Gross profit	137,428	163,011	1,789	302,228
Selling, general and administrative expenses	51,088	50,173	24,605	125,866
Research development costs	15,268	8,378	—	23,646
Operating income	71,072	104,460	(22,816)	152,716
Depreciation and amortization	$ 72,906	$ 35,104	$ 2,364	$ 110,374
Total assets	$ 5,177,886	$ 1,875,069	$ 289,830	$ 7,342,785
Goodwill	$ 2,615,398	$ 1,082,502	$ —	$ 3,697,900

As of and for the three month periods ended June 30, 2005 (in thousands):

	Transaction Processing Services	Lender Processing Services	Corporate and Other	Total
Processing and services revenues	$ 320,673	$ 388,390	$ (350)	$ 708,713
Cost of revenues	228,806	224,698	—	453,504
Gross profit	91,867	163,692	(350)	255,209
Selling, general and administrative expenses	29,198	53,079	27,041	109,318
Research development costs	20,775	7,528	—	28,303
Operating income	41,894	103,085	(27,391)	117,588
Depreciation and amortization	$ 36,929	$ 36,399	$ 2,035	$ 75,363
Total assets	$ 1,796,636	$ 1,885,436	$ 386,687	$ 4,068,759
Goodwill	$ 658,151	$ 1,088,505	$ —	$ 1,746,656

FIDELITY NATIONAL INFORMATION SERVICES, INC.
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NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited) — Continued

Summarized financial information concerning the Company's segments is shown in the following tables.

As of and for the six month periods ended June 30, 2006 (in thousands):

	Transaction Processing Services	Lender Processing Services	Corporate and Other	Total
Processing and services revenues	$ 1,113,624	$ 808,581	$ 677	$ 1,922,882
Cost of revenues	862,464	479,591	—	1,342,055
Gross profit	251,160	328,990	677	580,827
Selling, general and administrative expenses	90,604	109,236	71,755	271,595
Research development costs	34,345	17,361	—	51,706
Operating income	126,211	202,393	(71,078)	257,526
Depreciation and amortization	$ 126,375	$ 77,349	$ 3,445	$ 207,169

As of and for the six month periods ended June 30, 2005 (in thousands):

	Transaction Processing Services	Lender Processing Services	Corporate and Other	Total
Processing and services revenues	$ 618,499	$ 743,257	$ (1,463)	$ 1,360,293
Cost of revenues	455,101	428,478	—	883,579
Gross profit	163,398	314,779	(1,463)	476,714
Selling, general and administrative expenses	57,704	115,900	46,270	219,874
Research development costs	40,236	12,003	—	52,239
Operating income	65,458	186,876	(47,733)	204,601
Depreciation and amortization	$ 73,968	$ 74,901	$ 2,234	$ 151,103

Transaction Processing Services

The Transaction Processing Services segment focuses on filling the processing needs of large financial institutions, commercial lenders, independent community banks, credit unions and retailers. The primary applications are software applications that 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. This segment also provides a number of complementary applications and services that interact directly with the core processing applications, including applications that facilitate interactions between the segment's financial institution customers and their clients. In addition, this segment includes credit card, debit card, and other transaction processing and check risk management services. Included in this segment were $105.2 million and $49.5 million in sales to non-U.S. based customers in three month periods and $187.1 million and $96.4 million in sales to non-U.S. based customers in the six month periods ended June 30, 2006 and 2005, respectively.

Lender Processing Services

The Lender Processing Services segment provides a comprehensive range of products and services related to the mortgage life cycle. The primary applications include core mortgage processing which banks use to process and service mortgage loans as well as other products and services including origination, data gathering, risk management, servicing, default management and property disposition services to lenders and other real estate professionals.

Corporate and Other

The Corporate and Other segment consists of the corporate overhead costs that are not allocated to any operating segments.

**FIDELITY NATIONAL INFORMATION SERVICES, INC.
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(18) Subsequent Event- Acquisition of Proservvi Empreendimentos e Servicos Ltda.

On July, 17, 2006, the Company acquired Proservvi Empreendimentos e Servicos Ltda.(“Proservvi”) for $2.8 million cash and the assumption of $13.3 million in debt. The Company will rename the operation Fidelity BPO Brazil Ltda., which will provide a full range of back office processing and support services. The company expects to invest an additional $13.6 million to support the working capital needs of the new operation.

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

The following discussion should be read in conjunction with Item 1: Consolidated and Combined Financial Statements and the Notes thereto included elsewhere in this report. The discussion below contains forward-looking statements that are based upon the Company's current expectations and are subject to uncertainty and changes in circumstances. Forward-looking statements are based on management's beliefs, as well as assumptions made by, and information currently available to, management. Because such statements are based on expectations as to future economic performance and are not statements of fact, actual results may differ materially from those projected. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. The risks and uncertainties which forward-looking statements are subject to include, but are not limited to: changes in general economic, business and political conditions, including changes in the financial markets; the risk that the recent merger with Certegy may fail to achieve beneficial synergies or that it may take longer than expected to do so; the effects of our substantial leverage, which may limit the funds available to make acquisitions and invest in our business; the risks of reduction in revenue from the elimination of existing and potential customers due to consolidation in the banking, retail and financial services industries; failures to adapt our services to changes in technology or in the marketplace; adverse changes in the level of real estate activity, which would adversely affect certain of our businesses; our potential inability to find suitable acquisition candidates or difficulties in integrating acquisitions; significant competition that our operating divisions face; and other risks detailed in the "Statement Regarding Forward-Looking Information," "Risk Factors" and other sections of the Company's Form 10-K and other filings with the Securities and Exchange Commission.

Overview

FIS is a leading provider of core processing services, item processing services, card issuer and transaction processing services, check risk management services, mortgage loan processing, mortgage-related information products, and outsourcing services to a wide variety of financial institutions, retailers, mortgage lenders and mortgage loan servicers, and real estate professionals. FIS has two reporting segments, Transaction Processing Services and Lender Processing Services, which produced 57.9% and 42.1%, respectively, of FIS's revenues in the six month period ended June 30, 2006.

- ***Transaction Processing Services.*** This segment focuses on serving processing and risk management needs of financial institutions and retailers. FIS's 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. FIS also provides a number of complementary applications and services that interact directly with the core processing applications, including applications that facilitate interactions between FIS's financial institution customers and their clients. FIS offers its applications and services through a range of delivery and service models, including on-site outsourcing and remote processing arrangements, as well as on a licensed software basis for installation on customer-owned and operated systems. This segment also includes card issuer services which enable banks, credit unions, and others to issue VISA and MasterCard credit and debit cards, private label cards, and other electronic payment cards for use by both consumer and business accounts. In addition FIS provides check guarantee and verification services to retailers.

- ***Lender Processing Services.*** This segment offers core mortgage processing software, which banks use to process and service mortgage loans, as well as customized outsourced business processes and information solutions primarily to national lenders and loan servicers. These loan facilitation services consist primarily of centralized, customized title agency and closing services offered to first mortgage, refinance, home equity and sub-prime lenders. In addition, this segment provides default management services to national lenders and loan servicers, allowing customers to outsource the business processes necessary to take a loan and the underlying real estate securing the loan through the default and foreclosure process. This segment also offers property data and real estate-related services. Included in these services are appraisal and valuation services, property records information, real estate tax services, borrower credit and flood zone information and multiple listing software and services.

FIS also has a corporate segment that consists primarily of costs relating to corporate overhead.

Factors Affecting Comparability

FIS's Consolidated and Combined Financial Statements included in this report present the financial condition and operating results of the businesses that comprise FIS and reflect the following significant transactions:

- On February 1, 2006, FIS merged into a wholly-owned subsidiary of Certegy Inc. The transaction resulted in a reverse acquisition with a total purchase price of approximately $2.2 billion. Certegy provided credit card, debit card, and other transaction processing and check risk management services to financial institutions and merchants in the U.S. and internationally through two segments, Card Services and Check Services.
- On March 9, 2005, the recapitalization of FIS was completed through $2.8 billion in borrowings under new senior credit facilities consisting of an $800 million Term Loan A facility, a $2.0 billion Term Loan B facility (collectively, the "Term Loan Facilities") and a $400 million revolving credit facility (the "Revolver"). The Company fully drew upon the entire $2.8 billion in Term Loan Facilities to complete the recapitalization while the Revolver remained undrawn at the closing. At the same time, FIS also sold a 25 percent equity interest to an investment group led by Thomas H. Lee Partners ("THL") and Texas Pacific Group ("TPG").

The Consolidated and Combined Financial Statements present the results of operations of Certegy and the effects of the recapitalization, in each case effective as of the date of the acquisition or recapitalization. As a result of these transactions, the results of operations in the periods covered by the Consolidated and Combined Financial Statements may not be directly comparable.

Related Party Transactions

FIS has historically conducted business with FNF and FNT. In March 2005, in connection with the recapitalization and sale of equity interest, FIS entered into various agreements with FNF and FNT under which the Company will continue to provide title agency services, title plant management, and IT services. Further, the Company also entered into service agreements with FNF under which FNF and FNT will continue to provide corporate services. On February 1, 2006, in connection with the closing of the Certegy Merger, many of these agreements were amended and restated. The amended and restated agreements are based substantially on the same versions of the agreements that were originally executed in March 2005. These agreements are being evaluated in relation to the merger agreement with FNF mentioned previously, but the economic terms of such agreements will not change significantly. A summary of these agreements is as follows:

- *Agreement to provide data processing services.* This arrangement governs the revenues to be earned by the Company for providing IT support services and software, primarily infrastructure support and data center management, to FNF and FNT. Subject to certain early termination provisions (including the payment of minimum monthly service and termination fees), this agreement has an initial term of five years with an option to renew for one or two additional years.
- *Agreements to provide title plant information, maintenance and management.* These agreements govern the fee structure under which the Company will be paid for maintaining, managing and updating title plants owned by FNT's title underwriters in certain parts of the country. This business requires, among other things, that the Company gather updated property information, organize it, input it into one of several systems, maintain or obtain the use of necessary software and hardware to store, access and deliver the data, sell and deliver the data to customers and provide various forms of customer support. The Company sells property information to title underwriters which are subsidiaries of FNT as well as to various unaffiliated customers. In the case of the maintenance agreement, the Company is responsible for the costs of keeping the title plant assets current and functioning and in return receives the revenue generated by those assets. The Company will pay FNT a royalty fee of 2.5% to 3.75% of the revenues received. Subject to certain early termination provisions for cause, each of these agreements may be terminated upon five years' prior written notice, which notice may not be given until after the fifth anniversary of the effective date of the agreement (thus effectively resulting in a minimum ten year term and a rolling one-year term thereafter).

- *Agreements to provide software development and services.* These agreements govern the fee structure under which the Company will be paid for providing software development and services to FNT which consist of developing software for use in the title operations of FNT.
- *Arrangements to provide other real estate related services.* Under these arrangements the Company is paid for providing other real estate related services to FNT, which consist primarily of data services required by the title insurance operations.
- *Agreements by FNF and FNT to provide corporate services to the Company.* These agreements provide for FNF and FNT to continue to provide general management, accounting, treasury, tax, finance, legal, payroll, human resources, employee benefits, internal audit, mergers and acquisitions, and other corporate support to the Company. The pricing of these services will be at cost for services which are either directly attributable to the Company, or in certain circumstances, an allocation of the Company's share of the total costs incurred by FNF or FNT in providing such services based on estimates that FNF, FNT and the Company believe to be reasonable.
- *Licensing, leasing and cost sharing agreements.* These agreements provide for the reimbursement of certain amounts from FNF or its subsidiaries related to various miscellaneous licensing, leasing, and cost sharing agreements.
- *Agreements to provide title agency services.* These agreements allow the Company to provide services to existing customers through loan facilitation transactions, primarily with large national lenders. The arrangement involves the Company providing title agency services which result in the issuance of title policies by the Company on behalf of title insurance underwriters owned by FNT and subsidiaries. Subject to certain early termination provisions for cause, each of these agreements may be terminated upon five years' prior written notice, which notice may not be given until after the fifth anniversary of the effective date of the agreement (thus effectively resulting in a minimum ten year term and a rolling one-year term thereafter). The LPS segment includes revenues from unaffiliated third parties of $18.2 million and $19.1 million for the three month periods and $36.9 million and $38.1 million for the six month periods ended June 30, 2006 and 2005, respectively, representing commissions on title insurance policies written by the Company on behalf of title insurance subsidiaries of FNT. These commissions are equal to 88% of the total title premium from title policies that the Company places with subsidiaries of FNT. The Company also performs similar functions in connection with trustee sale guarantees, a form of title insurance that subsidiaries of FNT issue as part of the foreclosure process on a defaulted loan.

A detail of related party items included in revenues and expenses is as follows (in millions):

	Three month period ended June 30,		Six month period ended June 30,	
	2006	2005	2006	2005
Data processing services revenue	$ 17.7	$ 13.1	$ 34.6	$ 24.7
Title plant information revenue	6.2	7.6	11.8	14.2
Software revenue	9.9	3.8	17.3	6.6
Other real-estate related services	3.0	3.2	5.9	5.9
Total revenues	$ 36.8	$ 27.7	$ 69.6	$ 51.4

These amounts represent revenues from FNF and/or FNT for which we earn margins that are comparable to what FIS earns from other third parties.

	Three month period ended June 30,		Six month period ended June 30,	
	2006	2005	2006	2005
Title plant royalty expense	$ 1.1	$ 0.7	$ 1.8	$ 1.4
Rent expense	—	2.2	—	5.0
Corporate services	2.1	6.3	4.5	13.9
Licensing, leasing and cost sharing agreement	3.5	4.1	6.0	7.4
Total expenses	$ 6.7	$ 13.3	$ 12.3	$ 27.7

These amounts represent expenses from FNF and/or FNT that are comparable to what FIS pays to other third parties.

The Company believes the amounts earned from or charged by FNF to the Company under each of the foregoing service arrangements are fair and reasonable. Although the 88% commission rate on title insurance policies was set without negotiation, the Company believes it is consistent with the blended rate that would be available to a third party title agent given the amount and the geographic distribution of the business produced and the low risk of loss profile of the business placed. In connection with title plant management, the Company charges FNF title insurers for title information at approximately the same rates it and other similar vendors charge unaffiliated title insurers. The Company's IT infrastructure support and data center management services to FNF and FNT is priced within the range of prices the Company offers to third parties

Recent Developments

Acquisition of Proservvi Empreendimentos e Servicos Ltda.

On July, 17, 2006, the Company acquired Proservvi Empreendimentos e Servicos Ltda.("Proservvi") for $2.8 million cash and the assumption of $13.3 million in debt. The Company will rename the operation Fidelity BPO Brazil Ltda., which will provide a full range of back office processing and support services. The company expects to invest an additional $13.6 million to support the working capital needs of the new operation.

Combination with FNF

As previously announced, the Company entered into an agreement and plan of merger with FNF on June 25, 2006 (the " Merger Agreement"). This merger is one step in a plan that will eliminate FNF's holding company structure and majority ownership of FIS. Pursuant to the Merger Agreement, FNF will merge with and into FIS (the "FNF Merger"), with FIS continuing as the surviving corporation following the consummation of the FNF Merger. In consideration for the FNF Merger, FNF stockholders will receive FIS stock for their FNF shares following the transfer of certain of FNF's assets and liabilities to FNT and the distribution of FNF's ownership stake in FNT to FNF stockholders (collectively the "Proposed Transactions"). Also, on June 25, 2006, FNF entered into a Securities Exchange and Distribution Agreement (the "SEDA") with FNT, providing for the completion of the Proposed Transactions. Pursuant to the SEDA and after the completion of all of the transactions, FNT, which will consist of FNF's current specialty insurance and Sedgwick business lines in addition to FNT's current title insurance business, will be renamed Fidelity National Financial, Inc. ("New FNF") and will trade under the symbol FNF. Current FNF Chairman and CEO William P. Foley, II, will assume the same positions in New FNF and serve as Executive Chairman of FIS, and other key members of FNF senior management will continue their involvement in both New FNF and FIS in executive capacities. Completion of the transaction will be subject to a number of conditions, including but not limited to: the receipt of a private letter ruling from the Internal Revenue Service and a tax opinion form FNF's tax advisor; the receipt of all necessary shareholder approvals; the receipt of all necessary regulatory approvals for the transfer of FNF's specialty insurance operations to FNT and for the spin-off of FNF's ownership in FNT; the receipt of necessary approvals under credit agreements of FNF, FNT and FIS and any other material agreements; and other conditions set forth in the definitive agreements for the transactions. FIS expects the FNF Merger and the other related transactions to close late in the third quarter or early in the fourth quarter of 2006.

U.S. generally accepted accounting principles require that one of the two parties to the FNF Merger be designated as the acquirer for accounting purposes. However, Financial Accounting Standards Board Technical Bulletin 85-5, "Issues Relating to Accounting for Business Combinations" provides that if a transaction lacks substance, it is not a purchase event and should be accounted for based on existing carrying amounts. In the proposed FNF Merger, the minority interest of FIS does not change and, in substance, the only assets and liabilities of the combined entity after the exchange are those of FIS prior to the exchange. Because a change in ownership of the minority interest has not taken place, the exchange should be accounted for based on the carrying amounts of FIS's assets and liabilities.

Merger with Certegy Inc.

On September 14, 2005, the Company entered into a definitive merger agreement with Certegy under which the Company and Certegy would combine operations to form a single publicly traded company. On January 26, 2006, Certegy's shareholders approved the merger which was consummated on February 1, 2006.

As a result of the merger, the Company is one of the largest providers of processing services to U.S. financial institutions, with market-leading positions in core processing, card issuing services, check risk management, mortgage processing, and lender outsourcing services. The Company offers a diversified product mix, and management believes that it will benefit from the opportunity to cross-sell products and services across the combined customer base and from the expanded international presence and scale. Management also expects to achieve cost synergies in, among other things, corporate overhead, compensation and benefits, technology, vendor management and facilities.

Banco Bradesco S.A. and Banco ABN AMRO Real

On March 28, 2006, the Company signed a definitive agreement to form a venture with Banco Bradesco S.A. and Banco ABN AMRO Real to provide comprehensive, fully outsourced credit and prepaid card processing services to Brazilian card issuers. This venture will position the Company as the leading third-party card processor in Brazil. The Company will make investments of approximately $100 million through 2008, including $25 million in 2006, and will transfer ownership of its existing Brazilian card operation to the new venture. This venture will be consolidated into the Company's financial statements based on the Company's controlling interest.

FastFunds

On February 1, 2006, the Company acquired certain assets of FastFunds, and its wholly-owned subsidiary Chex Services for $14.0 million in cash. FastFunds, through Chex Services, provides comprehensive cash access services including check cashing, automated teller machine access, and credit and debit card cash advance services to approximately 50 casinos in the U.S., Canada, and the Caribbean.

Business Trends and Conditions

Transaction Processing Services

In the transaction processing services business, increases in deposit and card transactions can positively affect FIS's business and thus the condition of the overall economy can have an effect on growth.

In this segment, FIS competes for both licensing and outsourcing business, and thus is affected by the decisions of financial institutions to outsource the services FIS provides instead of simply licensing its applications. As a provider of outsourcing solutions, FIS benefits from the greater revenues that result from a financial institution's decision to outsource its processing to FIS. Generally, financial institutions of all sizes will consider outsourcing information technology and business process services to varying degrees, although smaller financial institutions are more likely to outsource all information technology functions to companies such as FIS since they generally do not have the staff, budget or expertise to implement and operate highly complex technical environments. Larger financial institutions have historically chosen to limit outsourcing to specific application functions or services in connection with a particular product or operation. Generally, demand for outsourcing solutions has increased over time as providers such as FIS realize economies of scale and improve their ability to provide services that improve customer efficiencies and reduce costs.

Card transactions continue to increase as a percentage of total point-of-sale payments, which fuels continuing demand for card-related products. We continue to launch new products aimed at serving this demand. In recent years, we have introduced a variety of stored-value card types, Internet banking, and electronic bill presentment/payment products, as well as a number of card enhancement and loyalty/reward programs. The common theme among these offerings continues to be convenience and security for the consumer coupled with value to the financial institution.

FIS may be affected by the consolidation trend in the banking industry. This trend may be beneficial or detrimental to the Transaction Processing Services businesses. When consolidations occur, merger partners often operate disparate systems licensed from competing service providers. The newly formed entity generally makes a determination to migrate its core systems to a single platform. When a financial institution processing client is involved in a consolidation, FIS may benefit by expanding the use of its services if they are chosen to survive the consolidation and support the newly combined entity. Conversely, FIS may lose market share if a customer of FIS is involved in a consolidation and its services are not chosen to survive the consolidation and support the newly combined entity.

Lender Processing Services

The level of residential real estate activity, which depends in part on the level of interest rates, affects the level of revenues from the Lender Processing Services segment. Revenues from mortgage loan processing and loan facilitation services increase as the amount of mortgage originations from home purchases and mortgage refinancings increases.

While prevailing mortgage interest rates have declined to record lows in recent years and the volume of real estate transactions has experienced record highs, 2006 has seen rates increase and a slow down in the refinancing market. The current MBA forecast is for $2.4 trillion of mortgage originations in 2006 as compared to $2.9 trillion in 2005. Relatively higher interest rates are also likely to result in seasonal effects having more influence on real estate activity. Traditionally, the greatest volume of real estate activity, particularly residential resale transactions, has occurred in the spring and summer months.

In contrast, FIS believes that a higher interest rate environment may increase the volume of consumer defaults and thus favorably affect FIS's default management services, which provides services relating to residential mortgage loans in default. The overall strength of the economy also affects default revenues.

Critical Accounting Policies

The accounting policies described below are those FIS considers critical in preparing its Consolidated and Combined Financial Statements. Certain of these policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures with respect to contingent liabilities and assets at the date of the Consolidated and Combined Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual amounts could differ from those estimates. See Note 3 of Notes to the Consolidated and Combined Financial Statements for a more detailed description of the significant accounting policies that have been followed in preparing FIS's Consolidated and Combined Financial Statements.

Revenue Recognition

The following describes the Company's primary types of revenues and its revenue recognition policies as they pertain to the types of transactions the Company enters into with its customers. The Company enters into arrangements with customers to provide services, software and software related services such as post-contract customer support and implementation and training either individually or as part of an integrated offering of multiple products and services. These products and services occasionally include offerings from more than one segment to the same customer. The revenues for services provided under these multiple element arrangements are recognized in accordance with the applicable revenue recognition accounting principles as further described below.

In its TPS business, the Company recognizes revenues relating to bank processing and credit and debit card processing services along with software licensing and software related services. Several of the Company's contracts include a software license and one or more of the following services: data processing, development, implementation, conversion, training, programming, post-contract customer support and application management. In some cases, these services are offered in combination with one another and in other cases the Company offers them individually. Revenues from processing services are typically volume-based depending on factors such as the number of accounts processed, transactions processed and computer resources utilized.

The substantial majority of the revenues in the transaction processing services business are from outsourced data processing, credit and debit card processing, and application management arrangements. Revenues from these arrangements are recognized as services are performed in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 104 ("SAB No. 104"), *Revenue Recognition* and related interpretations. SAB No. 104 sets forth guidance as to when revenue is realized or realizable and earned when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed and determinable; and (4) collectability is reasonably assured. Revenues and costs related to implementation, conversion and programming services associated with the Company's data processing and application management agreements during the implementation phase are deferred and subsequently recognized using the straight-line method over the term of the related services agreement. The Company evaluates these deferred contract costs for impairment in the event any indications of impairment exist.

In the event that the Company's arrangements with its customers include more than one product or service, the Company determines whether the individual revenue elements can be recognized separately in accordance with Financial Accounting Standards Board ("FASB") Emerging Issues Task Force No. 00-21 ("EITF 00-21"), *Revenue Arrangements with Multiple Deliverables*. EITF 00-21 addresses the determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how the arrangement consideration should be measured and allocated to the separate units of accounting.

If the products and services are software related products and services as determined under AICPA's SOP 97-2 *Software Revenue Recognition* ("SOP 97-2"), and SOP 98-9 *Modification of SOP No. 97-2, Software Revenue Recognition, with Respect to Certain Transactions* ("SOP 98-9") the Company applies these pronouncements and related interpretations to determine the appropriate units of accounting and how the arrangement consideration should be measured and allocated to the separate units.

The Company recognizes software license and post-contract customer support fees as well as associated development, implementation, training, conversion and programming fees in accordance with SOP No. 97-2 and SOP No. 98-9. Initial license fees are recognized when a contract exists, the fee is fixed or determinable, software delivery has occurred and collection of the receivable is deemed probable, provided that vendor-specific objective evidence ("VSOE") has been established for each element or for any undelivered elements. The Company determines the fair value of each element or the undelivered elements in multi-element software arrangements based on VSOE. If the arrangement is subject to accounting under SOP No. 97-2, VSOE for each element is based on the price charged when the same element is sold separately, or in the case of post-contract customer support, when a stated renewal rate is provided to the customer. If evidence of fair value of all undelivered elements exists but evidence does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. If evidence of fair value does not exist for one or more undelivered elements of a contract, then all revenue is deferred until all elements are delivered or fair value is determined for all remaining undelivered elements. Revenue from post-contract customer support is recognized ratably over the term of the agreement. The Company records deferred revenue for all billings invoiced prior to revenue recognition.

With respect to a small percentage of revenues, the Company uses contract accounting, as required by SOP No. 97-2, when the arrangement with the customer includes significant customization, modification, or production of software. For elements accounted for under contract accounting, revenue is recognized in accordance with SOP 81-1, *Accounting for Performance of Construction Type and Certain Production-Type Contracts*, using the percentage-of-completion method since reasonably dependable estimates of revenues and contract hours applicable to various elements of a contract can be made. Revenues in excess of billings on these agreements are recorded as unbilled receivables and are included in trade receivables. Billings in excess of revenue recognized on these agreements are recorded as deferred revenue until revenue recognition criteria are met. Changes in estimates for revenues, costs and profits are recognized in the period in which they are determinable. When the Company's estimates indicate that the entire contract will be performed at a loss, a provision for the entire loss is recorded in that accounting period.

In its lender processing services business, the Company recognizes revenues relating to mortgage processing services, loan facilitation services, default management services, and property data-related services. Mortgage processing arrangements are typically volume-based depending on factors such as the number of accounts processed, transactions processed and computer resources utilized. Loan facilitation services primarily consist of centralized title agency and closing services for various types of lenders. Default management services assist customers through the default and foreclosure process, including property preservation and maintenance services (such as lock changes, window replacement, debris removal and lawn service), posting and publication of foreclosure and auction notices, title searches, document preparation and recording services, and referrals for legal and property brokerage services. Property data or data-related services principally include appraisal and valuation services, property records information, real estate tax services, borrower credit and flood zone information and multiple listing software and services. Revenues derived from these services are recognized as the services are performed in accordance with SAB No. 104 as described above. Revenues relating to loan facilitation services are typically recognized at the time of closing of the related real estate transaction. Ancillary service fees are recognized when the service is provided.

In addition, the Company's flood and tax units provide various services including life-of-loan-monitoring services. Revenue for life-of-loan services is deferred and recognized ratably over the estimated average life of the loan service period, which is determined based on the Company's historical experience and industry data. The Company evaluates its historical experience on a periodic basis, and adjusts the estimated life of the loan service period prospectively.

Revenue derived from software and service arrangements included in the lender processing services segment is recognized in accordance with SOP No. 97-2 as discussed above.

Reserves for Card Processing and Check Guarantee Losses.

The Company recognizes a reserve for estimated losses related to our card issuing business based on historical experience and other relevant factors. In our card issuing business, we record estimates to accrue for losses resulting from transaction processing errors. We utilize a number of systems and procedures within our card issuing business in order to minimize such transaction processing errors. Card processing loss reserves are primarily determined by performing a historical analysis of our loss experience and considering other factors that could affect that experience in the future. Such factors include the general economy and the credit quality of customers. Once these factors are considered, we assess the reserve adequacy by comparing the recorded reserve to the estimated amount based on an analysis of the current trend changes or specific anticipated future events. Any adjustments are charged to costs of services. These card processing loss reserve amounts are subject to risk that actual losses may be greater than our estimates. We remain at risk for cardholder transactions in the former Certegy merchant acquiring business which was sold prior to the Merger.

In the check guarantee business, if a guaranteed check presented to a merchant customer is dishonored by the check writer's bank, the Company reimburses our merchant customer for the check's face value and pursues collection of the amount from the delinquent check writer. Loss reserves and anticipated recoveries are primarily determined by performing a historical analysis of the check loss and recovery experience and considering other factors that could affect that experience in the future. Such factors include the general economy, the overall industry mix of our customer volumes, statistical analysis of check fraud trends within our customer volumes, and the quality of returned checks. Once these factors are considered, a rate is established for check losses that is calculated by dividing the expected check losses by dollar volume processed and a rate for anticipated recoveries that is calculated by dividing the anticipated recoveries by the total amount of related check losses. These rates are then applied against the dollar volume processed and check losses, respectively, each month and charged to cost of revenue. The estimated check returns and recovery amounts are subject to risk that actual amounts returned and recovered may be different than our estimates.

Computer Software

Computer software includes the fair value of software acquired in business combinations, purchased software and capitalized software development costs. Purchased software is recorded at cost and amortized using the straight line method over a 3 year period and software acquired in business combinations is recorded at its fair value and amortized using straight line and accelerated methods over their estimated useful lives, ranging from 5 to 10 years.

Capitalized software development costs are accounted for in accordance with either SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* (SFAS No. 86), or with SOP No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. After the technological feasibility of the software has been established (for SFAS No. 86 software), or at the beginning of application development (for SOP No. 98-1 software), software development costs, which include salaries and related payroll costs and costs of independent contractors incurred during development, are capitalized. Research and development costs incurred prior to the establishment of technological feasibility (for SFAS No. 86 software), or prior to application development (for SOP No. 98-1 software), are expensed as incurred. Software development costs are amortized on a product by product basis commencing on the date of general release of the products (for SFAS No. 86 software) and the date placed in service for purchased software (for SOP No. 98-1 software). Software development costs (for SFAS No. 86 software) are amortized using the greater of (1) the straight line method over its estimated useful life, which ranges from three to seven years or (2) the ratio of current revenues to total anticipated revenue over its useful life.

Goodwill and Other Intangible Assets

FIS has significant intangible assets that were acquired through business acquisitions. These assets consist of purchased customer relationships, contracts, and the excess of purchase price over the fair value of identifiable net assets acquired (goodwill). The determination of estimated useful lives and the allocation of the purchase price to the fair values of the intangible assets require significant judgment and may affect the amount of future amortization on the intangible assets other than goodwill.

As of June 30, 2006 and December 31, 2005, goodwill was $3.7 billion and $1.8 billion, respectively. The process of determining whether or not an asset, such as goodwill, is impaired or recoverable relies on projections of future cash flows, operating results and market conditions. Such projections are inherently uncertain and, accordingly, actual future cash flows may differ materially from projected cash flows. In evaluating the recoverability of goodwill, FIS performs an annual goodwill impairment test on its reporting units based on an analysis of the discounted future net cash flows generated by the reporting units' underlying assets. FIS completed its annual goodwill impairment test on its reporting units as of December 31, 2005 and determined that each of its reporting units has a fair value in excess of its carrying value. Accordingly, no goodwill impairment has been recorded. Such analyses are particularly sensitive to changes in estimates of future net cash flows and discount rates. Changes to these estimates might result in material changes in the fair value of the reporting units and determination of the recoverability of goodwill which may result in charges against earnings and a reduction in the carrying value of FIS's goodwill.

As of June 30, 2006 and December 31, 2005, intangible assets were $1.1 billion and $508.8 million respectively, which consists of software**,** purchased customer relationships and trademarks. The valuation of these assets involves significant estimates and assumptions concerning matters such as customer retention, future cash flows and discount rates. If any of these assumptions change, it could affect the carrying value of these assets. Purchased customer relationships are amortized over their estimated useful lives using an accelerated method which takes into consideration expected customer attrition rates over a ten-year period. All trademarks have been determined to have indefinite lives and are not amortized, but are reviewed for impairment at least annually in accordance with SFAS No. 142. During 2005, FIS recorded an impairment of $9.3 million to write off the carrying value of customer relationships at one subsidiary in its Lender Processing Services segment which were terminated.

Long-Lived Assets

FIS reviews long-lived assets, primarily computer software, property and equipment and other intangibles, such as customer relationships and contracts, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If indicators of impairment are present, FIS estimates the future net cash flows expected to be generated from the use of those assets and their eventual disposal. FIS would recognize an impairment loss if the aggregate future net cash flows were less than the carrying amount. As a result, the carrying values of these assets could be significantly affected by the accuracy of its estimates of future net cash flows, which are not capable of being made with certainty.

Accounting for Income Taxes

Through March 9, 2005, FIS's operating results have been included in FNF's consolidated U.S. Federal and certain consolidated and/or combined State income tax returns. The provision for income taxes in the Consolidated and Combined statements of earnings is made at rates consistent with what FIS would have provided for as a stand-alone taxable entity. Subsequent to the recapitalization transaction and sale of minority interest, FIS became a stand-alone taxpayer. As part of the process of preparing the Consolidated and Combined financial statements, FIS was required to determine its income taxes in each of the jurisdictions in which it operates. This process involves estimating actual current tax expense together with assessing temporary differences resulting from differing recognition of items for income tax and accounting purposes. These differences result in deferred income tax assets and liabilities, which are included within the Consolidated Balance Sheets. FIS must then assess the likelihood that deferred income tax assets will be recovered from future taxable income and, to the extent it believes that recovery is not likely, establish a valuation allowance. To the extent FIS established a valuation allowance or increases this allowance in a period, it must reflect this increase as an expense within income tax expense in the statement of earnings. Determination of the income tax expense requires estimates and can involve complex issues that may require an extended period to resolve. Further, changes in the geographic mix of revenues or in the estimated level of annual pre-tax income can cause the overall effective income tax rate to vary from period to period.

Derivatives and Hedging

FIS utilizes interest rate swaps to hedge its exposure on its variable rate debt obligations. FIS has designated these interest rate swaps as cash flow hedges in accordance with SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," as amended. All relationships between the hedging instruments and hedged items are documented at the inception of the hedge transaction, as well as the risk-management objective and strategy for undertaking each hedge transaction. FIS carries the fair value of the interest rate swaps as an asset or a liability on the balance sheet at each reporting date, with a corresponding amount recorded in other comprehensive earnings within stockholders' equity. Amounts are reclassified from other comprehensive earnings to the income statement in the periods that the hedged transaction affects earnings. A formal assessment is performed at the hedge's inception and on a regular basis thereafter to determine whether the hedge has been highly effective in offsetting changes in the cash flows of the hedged transaction and whether they are expected to be highly effective in the future.

FIS's existing cash flow hedges have been highly effective and there has been no impact on earnings due to hedge ineffectiveness. As of June 30, 2006, the estimated fair value of cash flow hedges results in an asset of $10.6 million, which is included in the accompanying Consolidated Balance Sheet in prepaid and other current assets with a corresponding amount recorded as a component of accumulated other comprehensive earnings, net of deferred taxes.

Comparisons of three and six month periods ended June 30, 2006 and 2005

Consolidated and Combined Results of Operations
(in thousands, except per share amounts)

	Three month periods ended June 30,		Six month periods ended June 30,	
	2006	2005	2006	2005
	(unaudited)		(unaudited)	
Processing and services revenues	$ 1,021,946	$ 708,713	$ 1,922,882	$ 1,360,293
Cost of Revenues	719,718	453,504	1,342,055	883,579
Gross Profit	302,228	255,209	580,827	476,714
Selling, general and administrative expenses	125,866	109,318	271,595	219,874
Research and development costs	23,646	28,303	51,706	52,239
Operating income	152,716	117,588	257,526	204,601
Other Income (expense):				
Interest income	1,533	274	3,424	3,036
Interest expense	(49,033)	(36,388)	(92,301)	(49,809)
Other expense, net	866	85	(1,244)	(3,212)
Total other income (expense)	(46,634)	(36,029)	(90,121)	(49,985)
Earnings before income taxes, equity in earnings of unconsolidated entities and minority interest	106,082	81,559	167,405	154,616
Income tax expense	40,629	31,380	64,116	59,434
Equity in earnings of unconsolidated entities	259	1,006	2,092	2,244
Minority interest	(317)	2,609	(6)	4,254
Net earnings	$ 66,029	$ 48,576	$ 105,387	$ 93,172
Net earnings per share — basic	$ 0.34	$ 0.38	$ 0.58	$ 0.73
Weighted average shares outstanding — basic	192,224	127,920	181,168	127,920
Net earnings per share — diluted	$ 0.34	$ 0.38	$ 0.57	$ 0.73
Weighted average shares outstanding — diluted	195,374	127,920	184,242	127,920

Revenues

Total revenues were $1.0 billion and $708.7 million in the three month periods and $1.9 billion and $1.4 billion in the six month periods ended June 30, 2006 and 2005, respectively. The increase in the three month period ended June 30, 2006 as compared to the three month period ended June 30, 2005 of $313.2 million or 44.2% was due primarily to the inclusion of revenues in the Transaction Processing Services Segment from the February 1, 2006 merger with Certegy which contributed $287.6 million in revenue to the overall increase within that segment of $291.4 million. The Lender Processing Services segment contributed $19.7 million of the increase in revenues in the three month period. Excluding the revenues relating to the Merger with Certegy, total revenues were $733.0 million and $708.7 million in the respective three month periods. For the six month periods ended June 30, 2006, the increase of $562.6 million was made up primarily of the inclusion of $471.4 million relating to the February 1, 2006 merger with Certegy along with increases in the historically owned Transaction Processing Segment and Lender Processing Segment businesses of $20.7 million and $65.4 million, respectively in the six month period.

Cost of Revenues

Cost of revenues were $719.7 million and $453.5 million for the three month periods and $1.3 billion and $883.6 million for the six month periods ended June 30, 2006 and 2005, respectively. The increase in cost of revenues of $266.2 million in the three month period ended June 30, 2006 as compared to the same three month period in the prior year is primarily the result of the merger with Certegy which contributed $229.6 million to the increase. Included in total cost of revenues were depreciation and amortization costs of $97.9 million and $63.6 million for the three month periods and $181.8 million and $128.4 million for the six month periods ended June 30, 2006 and 2005, respectively. This increase in the three and six month periods is primarily due to the additional amortization expense related to the merger. The increase in cost of revenues of $458.5 million in the six month period ended June 30, 2006 compared with the six month period ended June 30, 2005 was also primarily the result of the inclusion of Certegy which contributed $374.8 million of the increase.

Gross Profit

Gross profit as a percentage of revenues was 29.6% and 36.0% for three month periods and 30.2% and 35.0% for the six month periods ended June 30, 2006 and 2005, respectively. The decrease in profit margin is due to the inclusion of the Certegy businesses which typically have lower margins than those of historically owned FIS businesses and the additional amortization expense relating to the purchase accounting for the merger with Certegy.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $125.9 million and $109.3 million for three month periods and $271.6 million and $219.9 million for the six month periods ended June 30, 2006 and 2005, respectively. The increase of $16.6 million for the three months ended June 30, 2006 as compared to June 30, 2005 primarily relates to selling, general and administrative expenses relating to the Certegy merger. Included in total selling, general and administrative expenses were depreciation and amortization costs of $12.5 million and $11.8 million for the three month periods and $25.4 million and $22.7 million for the six month periods ended June 30, 2006 and 2005, respectively. The increase of $51.7 million for the six month period ended June 30, 2006 as compared to June 30, 2005 partially relates to the increase in stock based compensation expense which increased from $11.5 million in the six month periods ended June 30, 2005 to $32.8 million in the six month periods ended June 30, 2006. This increase in stock-based compensation is primarily attributable to the $24.5 million in expense recorded for the vesting of the FIS performance-based options granted in March 2005 for which the performance criteria was met during the first quarter of 2006. The remainder of the increase is primarily attributable to the February 1, 2006 merger with Certegy.

Research and Development Costs

Research and development costs were $23.6 million and $28.3 million for three month periods and $51.7 million and $52.2 million for the six month periods ended June 30, 2006 and 2005, respectively.

Operating Income

Operating income totaled $152.7 million and $117.6 million for the three month periods and $257.5 million and $204.6 million for the six month periods ended June 30, 2006 and 2005, respectively. Operating Income was 14.9% and 16.6% of total revenue for the three month periods ending June 30, 2006 and 2005, respectively and 13.4% and 15.0% of total revenue in the six month periods ending June 30, 2006 and 2005, respectively, with the decrease in the 2006 periods reflecting increased amortization costs and the lower gross profit percentage associated with the Certegy product lines as noted above.

Interest expense

Interest expense was $49.0 million and $36.4 million for three month periods and $92.3 million and $49.8 million for the six month periods ended June 30, 2006 and 2005, respectively. The increase in the three month period ended June 30, 2006 as compared to the three month period ended June 30, 2005 relates to an increase in interest rates. The increase for the six month period was primarily due to the recapitalization that occurred late in the first quarter of 2005.

Income Tax Expense

FIS recorded income tax expense of $40.6 million and $31.4 million for three month periods and $64.1 million and $59.4 million for the six month periods ended June 30, 2006 and 2005, respectively. This resulted in an effective tax rate in the financial results of 38.3% for the three and six month periods ended June 30, 2006 and 38.5% and 38.4% for the three and six month periods ended June 30, 2005, respectively.

Minority Interest

Minority interest expense decreased primarily as a result of the Company’s purchase of the remaining 25.1% interest in Kordoba on September 30, 2005.

Net Earnings

Net earnings were $66.0 million and $48.6 million for three month periods and $105.4 million and $93.2 million for the six month periods ended June 30, 2006 and 2005, respectively and were $0.34 and $0.38 per diluted share for the three month periods and $0.57 and $0.73 per diluted share for the six month periods ended June 30, 2006 and 2005, respectively.

Segment Results of Operations

Transaction Processing Services

	Three month periods ended June 30,		Six month periods ended June 30,	
	2006	2005	2006	2005
	(Unaudited) (In thousands)		(Unaudited) (In thousands)	
Processing and services revenues	$ 612,076	$ 320,673	$ 1,113,624	$ 618,499
Cost of revenues	474,648	228,806	862,464	455,101
Gross profit	137,428	91,867	251,160	163,398
Selling, general and administrative expenses	51,088	29,198	90,604	57,704
Research and development costs	15,268	20,775	34,345	40,236
Operating income	$ 71,072	$ 41,894	$ 126,211	$ 65,458

Revenues in the Transaction Processing Services segment are derived from three main revenue channels, Enterprise Solutions, Integrated Financial Solutions and International. Revenues from the Transaction Processing Services were $612.1 million and $320.7 million for three month periods and $1.1 billion and $618.5 million for the six month periods ended June 30, 2006 and 2005, respectively. The overall segment increase of $291.4 million in the three month periods ended June 30, 2006, as compared to the three month period ended June 30, 2005, was primarily attributable to the merger with Certegy which contributed $287.6 million to the overall increase. Also, organic growth within the historically owned Integrated Financial Solutions and International businesses, offset by a decrease in Enterprise Solutions business driven primarily by a large termination fee being included in the prior year results relating to the loss of a customer which was acquired. Enterprise Solutions contributed $239.8 million, Integrated Financial Solutions contributed $275.9 million and International contributed $99.3 million of revenue in the three month period ended June 30, 2006 and $160.3 million, $124.8 million and $45.0 million in the three months ended June 30, 2005, respectively. The increase in revenue was primarily driven by the inclusion of revenues from Certegy in the 2006 period. The increase in overall revenues for the six month period ended June 30, 2006 was also primarily due to the inclusion of Certegy's revenues which were $471.4 million of the $495.2 million increase. The majority of the remaining growth is atrtibutable to the Integrated Financial Solutions and International revenue channels.

Cost of revenues relating to the Transaction Processing Services segment were $474.6 million and $228.8 million for three month periods and $862.5 million and $455.1 million for the six month periods ended June 30, 2006 and 2005, respectively. The $245.8 million increase in the three month period ending June 30, 2006 is also primarily attributable to the Merger with Certegy which contributed $229.6 million to the increase. Gross profit as a percentage of revenues was 22.5% and 28.6% for three month periods and 22.6% and 26.4% for the six month periods ending June 30, 2006 and 2005, respectively. The decrease was primarily attributed to the inclusion of Certegy's businesses since its acquisition on February 1, 2006, which typically have lower margins than that of the historical FIS businesses and the inclusion of additional amortization expense associated with the purchase accounting relating to Certegy. Included in cost of revenues was depreciation and amortization of $70.7 million and $33.8 million for the three month periods and $122.0 million and $69.0 million for the six month periods ended June 30, 2006 and 2005, respectively.

Selling, general and administrative expenses in the Transaction Processing Services segment for the three month periods were $51.1 million and $27.6 million, and for the six month periods ended June 30, 2006 and 2005 were $90.6 million and $56.1 million, respectively. The increase in the 2006 period is also primarily attributable to the merger with Certegy. Included in selling, general and administrative expenses was depreciation and amortization of $2.2 million and $3.2 million for the three month periods and $4.4 million and $5.0 million for the six month periods ended June 30, 2006 and 2005, respectively.

Research and development costs in the Transaction Processing Services segment for the three month periods were $15.3 million and $20.8 million, and for the six month periods ended June 30, 2006 and 2005 were $34.3 million and $40.2 million, respectively.

Operating income from the Transaction Processing Services segment was $71.1 million and $41.9 million in the three month periods and $126.2 million and $65.5 million in the six month periods ended June 30, 2006 and 2005, respectively. The operating margin was approximately 11.6% and 13.1% of total revenues for the three month periods ended June 30, 2006 and 2005, respectively, and 11.3% and 10.6% of total revenues in the six months periods ended June 30, 2006 and 2005, respectively. The decrease in the margin for the three months ended June 30, 2006 as compared to the three month period ended June 30, 2005 was the increase in amortization costs and lower gross profit relating to the acquisition of Certegy in 2006 mentioned above.

Lender Processing Services

	Three month periods ended June 30,		Six month periods ended June 30,	
	2006	2005	2006	2005
	(Unaudited) (In thousands)		(Unaudited) (In thousands)	
Processing and services revenues	$ 408,081	$ 388,390	$ 808,581	$ 743,257
Cost of revenues	245,070	224,698	479,591	428,478
Gross profit	163,011	163,692	328,990	314,779
Selling, general and administrative expenses	50,173	53,079	109,236	115,900
Research and development costs	8,378	7,528	17,361	12,003
Operating income	$ 104,460	$ 103,085	$ 202,393	$ 186,876

Revenues from the Lender Processing Services segment were $408.1 million and $388.4 million in the three month periods and $808.6 million and $743.3 million in the six month periods ended June 30, 2006 and 2005, respectively. The increase in revenues in the three month 2006 period of $19.7 million or 5.1% is primarily related to increases of $3.7 million in mortgage processing driven by growth in the number of loans processed and $16.3 million in our information services businesses. The $16.3 million increase in information services comes primarily from an increase in default management services business line. The increase of $65.4 million or 8.8% in the six month period ended June 30, 2006 as compared to the six month period ended June 30, 2005 was primarily the result of strong first quarter revenues in our appraisal and tax services business along with growth in our default management businesses over the entire six month period.

Cost of revenues for the Lender Processing Services segment in the three month periods was $245.1 million and $224.7 million, and in the six month periods ended June 30, 2006 and 2005 was $479.6 million and $428.5 million, respectively. Gross profit as a percentage of revenues was 39.9% and 42.1% for the three month periods and 40.7% and 42.4% for the six months periods ended June 30, 2006 and 2005, respectively. The decrease in gross profit percentage relates primarily to growth in lower margin product lines including default and appraisal services along with declining margins in our tax services due to the lengthening of the service period. Included in cost of revenues for the three month periods was depreciation and amortization of $27.2 million and $29.9 million and for the six month periods ended June 30, 2006 and 2005 of $59.9 million and $59.5 million, respectively

Selling, general and administrative expenses relating to the Lender Processing Services segment for the three month periods were $50.2 million and $53.1 million , and for the six month periods ended June 30, 2006 and 2005 were $109.2 million and $115.9 million, respectively. Included in selling, general and administrative expenses was depreciation and amortization of $7.9 million and $6.5 million for the three month periods and $17.4 million and $15.4 million for the six month periods ended June 30, 2006 and 2005, respectively.

Operating income for the Lender Processing Services segment was $104.5 million and $103.1 million for the three month periods and was $202.4 million and $186.9 million for the six month periods ended June 30, 2006 and 2005, respectively. Operating income was 25.6% and 26.5% of revenues for the three month periods and 25.0% and 25.1% of revenues for the six month periods ended June 30, 2006 and 2005, respectively.

Corporate and Other

Selling, general and administrative expenses from the Corporate and Other segment consist of corporate overhead costs that have been allocated from FNF and incurred directly by FIS. Selling, general and administrative expenses were $24.6 million and $27.0 million in the three month periods and $71.8 million and $46.3 million in the six month periods ended June 30, 2006 and 2005, respectively. The increase in the six month period ended June 30, 2006 as compared to the six month period ended June 30, 2005 of $25.5 million primarily relates to the increase in stock based compensation expense which increased from $11.5 million in the six month period ended June 30, 2005 to $32.8 million in the six month period ended June 30, 2006. This increase in stock based compensation primarily related to the $24.5 million in expense recorded for the vesting of the FIS performance based options granted in March of 2005 for which the performance criteria were met during the six months ended June 30, 2006.

Pro forma Segment Information

Summarized pro forma financial information concerning the Company's reportable segments is shown in the following tables. The results below have been adjusted on a pro forma basis to reflect a January 1, 2005, effective date for the merger with Certegy, purchase of minority interests of Kordoba, and the March 2005 recapitalization and sale of minority interests by FIS.

For the three month periods ended June 30, 2006 (in thousands):

	Transaction Processing Services	Lender Processing Services	Corporate and Other	Total
Processing and services revenues	$ 612,076	$ 408,081	$ 1,789	$ 1,021,946
Cost of revenues	474,648	245,070	—	719,718
Gross profit	137,428	163,011	1,789	302,228
Selling, general and administrative expenses	51,089	50,173	24,604	125,866
Research development costs	15,268	8,378	—	23,646
Operating income	$ 71,071	$ 104,460	$ (22,815)	$ 152,716

For the three month periods ended June 30, 2005 (in thousands):

	Transaction Processing Services	Lender Processing Services	Corporate and Other	Total
Processing and services revenues	$ 596,696	$ 388,390	$ (350)	$ 984,736
Cost of revenues	446,143	224,698	—	670,841
Gross profit	150,553	163,692	(350)	313,895
Selling, general and administrative expenses	53,969	53,079	36,148	143,196
Research development costs	20,775	7,528	—	28,303
Operating income	$ 75,809	$ 103,085	$ (36,498)	$ 142,396

For the six month periods ended June 30, 2006 (in thousands):

	Transaction Processing Services	Lender Processing Services	Corporate and Other	Total
Processing and services revenues	$ 1,204,587	$ 808,581	$ 2,629	$ 2,015,797
Cost of revenues	942,538	479,591	—	1,422,129
Gross profit	262,049	328,990	2,629	593,668
Selling, general and administrative expenses	95,015	109,236	154,234	358,485
Research development costs	34,345	17,361	—	51,706
Operating income	$ 132,689	$ 202,393	$ (151,605)	$ 183,477

(a) Corporate and Other includes merger related costs at Certegy of $79.7 million incurred prior to the acquisition date and a $24.1 million charge relating to the vesting of performance based options at FIS triggered by the closing of the merger.

For the six month periods ended June 30, 2005 (in thousands):

	Transaction Processing Services	Lender Processing Services	Corporate and Other	Total
Processing and services revenues	$ 1,156,980	$ 743,257	$ (1,463)	$ 1,898,774
Cost of revenues	883,605	428,478	—	1,312,083
Gross profit	273,375	314,779	(1,463)	586,691
Selling, general and administrative expenses	106,303	115,900	65,054	287,257
Research development costs	40,236	12,003	—	52,239
Operating income	$ 126,836	$ 186,876	$ (66,517)	$ 247,195

Liquidity and Capital Resources

Cash Requirements

Our cash requirements include cost of revenues, selling, general and administrative expenses, income taxes, debt service payments, capital expenditures, systems development and business acquisitions. Our principal sources of funds are cash generated by operations and borrowings.

At June 30, 2006, we have cash on hand of $143.7 million and long-term debt including the current portion of approximately $2.9 billion. We expect cash flows from operations over the twelve months following the merger will be sufficient to fund operating cash requirements, and repay debt under the Revolver (as defined below) absent any unusual circumstances such as acquisitions or adverse changes in the business environment.

We currently pay quarterly dividends to its shareholders of $0.05 per share and is expected to continue to do so in the future, although the payment of any future dividends is at the discretion of our Board of Directors. Upon completion of the Merger, FIS's loan facilities were amended to limit the amount of dividends the combined company can pay on its common stock to $60 million per year, plus certain other amounts, except that dividends on the common stock may not be paid if any event of default under the facilities shall have occurred or be continuing or would result from such payment.

The Company intends to limit dilution caused by option exercises, including anticipated exercises, by repurchasing shares on the open market or in privately negotiated transactions. During the six months ended June 30, 2006, the Company repurchased 1,727,600 shares at an average price of $37.63 under this program. Subsequent to June 30, 2006, the Company repurchased another 1,101,600 shares at an average price of $35.20. Under the current plan approved by the Company's Board of Directors, 170,800 shares remain available for repurchase.

Capital Expenditures

FIS's principal capital expenditures are for computer software and additions to property and equipment. In 2004, FIS began the development work to implement changes required to be competitive within the marketplace and meet the requirements of its customers. FIS expects to spend an incremental $10 million in 2006 on the development of its mortgage servicing platform. With respect to the core banking software, FIS expects to spend approximately $27 million in the remainder of 2006 on development, enhancements and integration projects. FIS expects to capitalize a portion of those expenditures.

Financing

On November 8, 2004, FIS entered into a credit agreement providing for a $500 million, 5-year revolving credit facility due November 8, 2009. The facility provided an option to increase the size of the credit facility an additional $100 million. This credit agreement bore interest at a variable rate based on leverage and was unsecured. The interest rate under this credit agreement during the time it was outstanding was LIBOR plus 0.50%. In addition, FIS was required to pay a 0.15% commitment fee on the entire facility. On November 8, 2004, FIS drew down approximately $410 million to fund the acquisition of InterCept. On March 9, 2005, FIS repaid this facility with a portion of the net proceeds from its sale of a minority interest in FIS to a group of investors and terminated the agreement.

On March 9, 2005, FIS completed a recapitalization. FIS entered into $3.2 billion in senior credit facilities consisting of an $800 million Term Loan A facility, a $2.0 billion Term Loan B facility (collectively, The "Term Loan Facilities") and a $400 million revolving credit facility (the "Revolver") with a consortium of lenders led by Bank of America. FIS fully drew upon the entire $2.8 billion in Term Loan Facilities to consummate the recapitalization. FIS used proceeds from the loans to repay the outstanding principal and interest on a $2.7 billion note it previously issued as a dividend to FNF. The remainder will be used for general corporate purposes. Revolving credit borrowings and Term A Loans bear interest at a floating rate, which is, at FIS's option, either the British Bankers Association LIBOR or base rate plus, in both cases, an applicable margin, which is subject to adjustment based on the senior secured leverage ratio of FIS. The Term B Loans bear interest at either the British Bankers Association LIBOR plus 1.75% per annum or, at FIS's option, a base rate plus 0.75% per annum. FIS may choose one month, two month, three month, six month, and to the extent available, nine month or one year LIBOR, which then applies for a period of that duration. Interest is due at the end of each interest period, although for LIBOR loans that exceed three months, the interest is due three months after the beginning of such interest period. The Term Loan A matures in March, 2011, the Term Loan B in March, 2013, and the Revolver in March, 2011. The Term Loan Facilities are subject to quarterly amortization of principal in equal installments of .25% of the original principal amount with the remaining balance payable at maturity. As a result of these scheduled and other repayments, the aggregate principal balance of the Term Loan Facilities is now $2.5 billion. In addition to the scheduled amortization, and with certain exceptions, the Term Loan Facilities are subject to mandatory prepayment from excess cash flow, issuance of additional equity and debt and sales of certain assets. Voluntary prepayments of both the Term Loan Facilities and revolving loans and commitment reductions of the revolving credit facility are permitted at any time without fee upon proper notice and subject to minimum dollar requirements and payment of any LIBOR breakage charges if applicable.

The new credit facilities contain affirmative, negative, and financial covenants customary for financings of this type, including, among other things, limits on the creation of liens, limits on the incurrence of indebtedness, restrictions on investments and dispositions, limitations on dividends and other restricted payments and capital expenditures, a minimum interest coverage ratio, and a maximum secured leverage ratio. These financial covenants in the credit agreement include restrictions on the amount of indebtedness that FIS is allowed to incur during the existence of the credit facilities. Except in specified circumstances, subordinated and permitted senior indebtedness are not to exceed an aggregate amount of $100 million. FIS is also required to keep its senior secured leverage ratio at stated ratios for each fiscal quarter beginning with 5.35:1 in the third quarter of 2005 and eventually being reduced to 2.75:1 by the fourth quarter of 2012. The credit facility also calls for FIS to have interest coverage ratios for each fiscal quarter that are not less than 2.75:1 in the third quarter of 2005 and eventually rising to 4.25:1 by the fourth quarter of 2012. FIS is also restricted in the amount of capital expenditures that it can make for any fiscal year. Capital expenditures cannot exceed $260 million for the fiscal year ending in 2006, with the amount allowed eventually rising to $350 million by the fiscal year ending in 2012, excluding additional investments in our announced Brazil joint venture. If FIS does not spend the amount set forth on capital expenditures in any given fiscal year, the amount of difference may be carried forward and used over the next two fiscal years. The credit agreement includes customary events of default for facilities of this type (with customary grace periods, as applicable) and provides that, upon the occurrence of an event of default, the interest rate on all outstanding obligations will be increased and payments of all outstanding loans may be accelerated and/or the lenders' commitments may be terminated. In addition, upon the occurrence of certain insolvency or bankruptcy related events of default, all amounts payable under the credit agreement shall automatically become immediately due and payable, and the lenders' commitments will automatically terminate. Upon completion of the Merger, Certegy became a co-borrower and certain of its material subsidiaries became guarantors under these credit facilities. As a result, the combined company is subject to the covenants under those facilities.

On March 9, 2005, FIS used proceeds from the Term Loans to repay all outstanding principal and interest on a $2.7 billion principal amount promissory note that it distributed to FNF as a dividend on March 8, 2005. On March 9, 2005, FIS also completed its minority interest sale, in which it issued common shares representing a 25% interest in FIS to an investor group for $500 million. FIS used the proceeds of that issuance and the remaining Term Loan proceeds to retire its former revolving credit facility, as described below, and pay expenses relating to the recapitalization and the minority interest sale. These expenses totaled $79.2 million, and included certain fees and expenses of the investor group totaling approximately $45.7 million. The remaining proceeds from the Term Loans and minority interest sale were retained to use for general corporate purposes.

In connection with the Merger with Certegy, the Company has an obligation to service $200 million (aggregate principal amount) of unsecured 4.75% fixed-rate notes due in September 2008. The notes were recorded in purchase accounting at a discount of $5.7 million, which is being amortized on a straight-line basis over the term of the notes. The notes accrue interest at a rate of 4.75% per year, payable semi-annually in arrears on each March 15 and September 15.

The Company has a $100 million unsecured revolving credit facility that it uses to finance its customers' shortfalls in the daily funding requirements associated with the Company's credit and debit card settlement operations. Amounts borrowed are typically repaid within one to two business days, as customers fund the shortfalls. This facility has a term of 364 days and is renewed annually. There were no amounts outstanding under this facility at June 30, 2006.

Contractual Obligations

FIS's long-term contractual obligations generally include its long-term debt and operating lease payments on certain of its property and equipment. The following table summarizes FIS's significant contractual obligations and commitments as of December 31 (in thousands):

	2006	2007	2008	2009	2010	Thereafter	Total
Long- term debt (note 13)	$ 11,630	$ 22,540	$ 222,779	$ 50,364	$ 28,000	$ 2,544,000	$ 2,879,313
Operating leases (note 14)	26,325	43,647	34,487	25,528	15,494	18,554	164,035
Purchase commitment	49,945	50,000	25,000	—	—	—	124,945
Investment commitment	27,100	22,300	60,200	—	—	—	109,600
Data processing agreement obligations (note 14)	21,896	49,733	60,419	63,744	65,393	376,520	637,705
Total	$ 136,896	$ 188,220	$ 402,885	$ 139,636	$ 108,887	$ 2,939,074	$ 3,915,598

Off-Balance Sheet Arrangements

FIS does not have any material off-balance sheet arrangements, other than the Wisconsin operating leases disclosed below and in Note 14 to the Consolidated and Combined Financial Statements.

The Company has a synthetic lease arrangement (the "Wisconsin Lease") which is not included in the Company's consolidated balance sheets with respect to its facilities in Madison, Wisconsin (the "Wisconsin Leased Property"). In connection with the Merger, the term of the Wisconsin Lease was amended so that it is scheduled to expire on December 31, 2006. The original cost to the lessor of the Wisconsin Leased Property when Certegy entered into the Wisconsin Lease was approximately $10.1 million. Subject to the satisfaction of certain conditions, the Company has the option to acquire the Wisconsin Leased Property at its original cost, or to direct the sale of the Wisconsin Leased Property to a third party.

Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 requires an evaluation to determine the likelihood that an uncertain tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. If it is determined that it is more likely than not that an uncertain tax position will be sustained upon examination, the next step is to determine the amount to be recognized. FIN 48 prescribes recognition of the largest amount of tax benefit that is greater than 50 percent likely of being recognized upon ultimate settlement of an uncertain tax position. Such amounts are to be recognized as of the first financial reporting period during which the more-likely-than-not recognition threshold is met. Similarly, an amount that has previously been recognized will be derecognized as of the first financial reporting period during which the more-likely-than-not recognition threshold is not met. FIN 48 is effective for fiscal years beginning after December 15, 2006. Management is currently evaluating the impact on the Company’s statements of financial position or operations.

In December 2004, the FASB issued FASB Statement No. 123R (“SFAS No. 123R”), “*Share-Based Payment*,” which requires that compensation cost relating to share-based payments to be recognized in the financial statements. During 2003, FIS adopted the fair value recognition provision of Statement of Financial Accounting Standards No. 123, “*Accounting for Stock-Based Compensation*” (“SFAS No. 123”), for stock-based employee compensation, effective as of the beginning of 2003. FIS had elected to use the prospective method of transition, as permitted by Statement of Financial Accounting Standards No. 148, “*Accounting for Stock-Based Compensation—Transition and Disclosure*” (“SFAS No. 148”). Under this method, stock-based employee compensation cost was recognized from the beginning of 2003 as if the fair value method of accounting had been used to account for all employee awards granted, modified, or settled in years beginning after December 31, 2002. SFAS No. 123R does not allow for the prospective method, but requires the recording of expense relating to the vesting of all unvested options beginning in the first quarter of 2006. Since SFAS No. 123 was adopted in 2003, the impact of recording additional expense in 2006 under SFAS No. 123R relating to options granted prior to January 1, 2003 is not significant as all options accounted for under other methods were fully vested as of December 31, 2005.

Item 3. Quantitative and Qualitative Disclosure About Market Risks

FIS is highly leveraged. As of June 30, 2006, it was paying interest on the Term Loan Facilities at a rate of one month LIBOR plus 1.25 to 1.75%, or (6.42-6.92%). At those rates, the annual interest on the remaining $1.8 billion of debt not swapped into a fixed rate as noted below would be $122.0 million. A one percent increase in the LIBOR rate would increase its annual debt service on the Term Loan Facilities by $18.2 million. The credit rating assigned to the Term Loan Facilities and Revolver by Standard & Poor’s is currently BB+.

On April 11, 2005, FIS entered into interest rate swap agreements which have effectively fixed the interest rate at approximately 6.1% through April 2008 on $350 million of the Term Loan B Facility and at approximately 5.9% through April 2007 on an additional $350.0 million of the Term Loan B Facility. The estimated fair value of the cash flow hedges results in an asset of FIS of $10.6 million as of June 30, 2006, which is included in the accompanying consolidated balance sheets in other noncurrent assets and as a component of accumulated other comprehensive earnings, net of deferred taxes.

Item 4. Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that our disclosure controls and procedures will timely alert them to material information required to be included in our periodic SEC reports.

There have been no changes in our internal controls over financial reporting that occurred during our last fiscal quarter that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

Part II: OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, the Company is involved in various pending and threatened litigation matters related to its operations, some of which include claims for punitive or exemplary damages. The Company believes that no actions, other than those listed below, depart from customary litigation incidental to its business. As background to the disclosure below, please note the following:

- These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including but not limited to the underlying facts of each matter, novel legal issues, variations between jurisdictions in which matters are being litigated, differences in applicable laws and judicial interpretations, the length of time before many of these matters might be resolved by settlement or through litigation and, in some cases, the timing of their resolutions relative to other similar cases brought against other companies and the current challenging legal environment faced by large corporations.
- In these matters, plaintiffs seek a variety of remedies including equitable relief in the form of injunctive and other remedies and monetary relief in the form of compensatory damages. In most cases, the monetary damages sought include punitive or treble damages. Often more specific information beyond the type of relief sought is not available because plaintiffs have not requested more specific relief in their court pleadings. In general, the dollar amount of damages sought is not specified. In those cases where plaintiffs have made a specific statement with regard to monetary damages, they often specify damages just below a jurisdictional limit regardless of the facts of the case. This represents the maximum they can seek without risking removal from state court to federal court. In the Company’s experience, monetary demands in plaintiffs’ court pleadings bear little relation to the ultimate loss, if any, the Company may experience.
- The Company reviews these matters on an on-going basis and follows the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 5, “Accounting for Contingencies” when making accrual and disclosure decisions. When assessing reasonably possible and probable outcomes, the Company bases its decision on its assessment of the ultimate outcome following all appeals.
- In the opinion of the Company’s management, while some of these matters may be material to the Company’s operating results for any particular period if an unfavorable outcome results, none will have a material adverse effect on the Company’s overall financial condition.

The Company, together with FNF and certain of its employees were named on March 6, 2006 as defendants in a civil lawsuit brought by Grace & Digital Information Technology Co., Ltd. (“Grace”), a Chinese company that formerly acted as a sales agent for Alltel Information Services (“AIS”).

Grace originally filed a lawsuit in December 2004 in state court in Monterey County, California, alleging that FIS breached the sales agency agreement between Grace and AIS by failing to pay Grace commissions on certain contracts in 2001 and 2003. However, the 2001 contracts were never completed and the 2003 contracts, as to which Grace provided no assistance, were for a different project and were executed one and one-half years after FIS terminated the sales agency agreement with Grace. In addition to its breach of contract claim, Grace also alleged that FNF violated the Foreign Corrupt Practices Act (FCPA) in its dealings with a bank customer in China. FNF denied Grace’s allegations in this California lawsuit.

In December 2005, the Monterey County court dismissed the lawsuit on the grounds of inconvenient forum, which decision Grace appealed on February 10, 2006. Further, on March 6, 2006, Grace filed a new lawsuit in the United States District Court for the Middle District of Florida arising from the same transaction, and added an additional allegation to its complaint that FNF violated the Racketeer Influenced and Corrupt Organizations Act (RICO) in its dealings with the same bank customer. FNF and its subsidiaries intend to defend this case vigorously.

On March 7, 2006, FNF filed its motion to dismiss this lawsuit, and on March 27, 2006, FNF filed an answer denying Grace's underlying allegations and counterclaiming against Grace for tortious interference and abuse of process. These motions have all been fully briefed and are pending before the Court. A pretrial management order has been entered providing for discovery, pretrial motion deadlines, and, if necessary, a trial in the later part of 2007.

FNF and its counsel have investigated these allegations and, based on the results of the investigations, FNF does not believe that there have been any violations of the FCPA or RICO, or that the ultimate disposition of these allegations or the lawsuit will have a material adverse impact on FNF's or any of its subsidiaries' financial position, results of operations or cash flows. FNF and its subsidiaries, including FIS, have fully cooperated with the Securities and Exchange Commission and the U.S. Department of Justice in connection with their inquiry into these allegations.

On July 15, 2004, Sourceprose Corporation ("SP") filed a complaint in the U.S. District Court, Eastern District of Texas, Marshall Division, against FNF and four of our subsidiaries, Fidelity National Information Solutions, Inc., Fidelity Information Services, Inc., FNIS Flood Services, L.P. (d/b/a LSI Flood Services) and Geotrac, Inc. (collectively, the "Fidelity Defendants"). SP alleged that it is the owner assignee of certain patents covering systems and methods for performing manually assisted flood zone determinations, which have been infringed by the Fidelity Defendants' use of certain practices within the scope of such patents, including the performance of manually assisted flood zone determinations. On April 12, 2006, SP and the Fidelity Defendants entered into a Settlement Agreement resolving the dispute and dismissing the lawsuit.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following tables summarizes purchases of equity securities by the issuer during the quarter ended June 30, 2006:

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) (3)
4/1/06 - 4/30/06	—	$ —	—	$ 114.0
5/1/06 – 5/30/06	1,389,600	38.07	1,389,600	59.2
6/1/06 - 6/30/06	338,000	35.82	338,000	45.0
Total	1,727,600	$ 37.63	1,727,600	$ 218.2

(1) For the quarter ended March 31, 2006, there were no shares purchased as part of publicly announced plans or programs.

(2) In April 2006, our Board of Directors approved a 3,000,000 share repurchase authorization. There is no termination date in connection with this authorization.

(3) As of the last day of the applicable month.

The Company intends to limit dilution caused by option exercises (including anticipated exercises) by repurchasing shares in the open market or in privately negotiated transactions.

Item 6. Exhibits

(a) Exhibits:

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Chief Executive Officer of Periodic Financial Reports pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
32.2	Certification by Chief Financial Officer of Periodic Financial Reports pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: August 9, 2006

FIDELITY NATIONAL INFORMATION SERVICES, INC.

By: /s/ JEFFREY S. CARBIENER
Jeffrey S. Carbiener
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

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FIDELITY NATIONAL INFORMATION SERVICES, INC.

FORM 10-Q

INDEX TO EXHIBITS

The following documents are being filed with this Report:

Exhibit No.	Description
31.1	Certification of Lee A. Kennedy, Chief Executive Officer of Fidelity National Information Services, Inc., pursuant to rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Jeffrey S. Carbiener, Chief Financial Officer of Fidelity National Information Services, Inc., pursuant to rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Lee A. Kennedy, Chief Executive Officer of Fidelity National Information Services, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Jeffrey S. Carbiener, Chief Financial Officer of Fidelity National Information Services, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.1

CERTIFICATIONS

I, Lee A. Kennedy, certify that:

1. I have reviewed this annual report on Form 10-Q of Fidelity National Information Services, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2006

By: /s/ LEE A. KENNEDY
Lee A. Kennedy
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Jeffrey S. Carbiener, certify that:

1. I have reviewed this annual report on Form 10-Q of Fidelity National Information Services, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2006

By: /s/ JEFFREY S. CARBIENER
Jeffrey S. Carbiener
Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF PERIODIC FINANCIAL REPORTS PURSUANT TO 18 U.S.C. § 1350

The undersigned hereby certifies that he is the duly appointed and acting Chief Executive Officer of Fidelity National Information Services, Inc., a Georgia corporation (the "Company"), and hereby further certifies as follows.

1. The periodic report containing financial statements to which this certificate is an exhibit fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

2. The information contained in the periodic report to which this certificate is an exhibit fairly presents, in all material respects, the financial condition and results of operations of Fidelity National Information Services, Inc.

In witness whereof, the undersigned has executed and delivered this certificate as of the date set forth opposite his signature below.

Date: August 9, 2006

/s/ LEE A. KENNEDY
Lee A. Kennedy
Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF PERIODIC FINANCIAL REPORTS PURSUANT TO 18 U.S.C. § 1350

The undersigned hereby certifies that he is the duly appointed and acting Chief Financial Officer of Fidelity National Information Services, Inc., a Georgia corporation (the "Company"), and hereby further certifies as follows.

1. The periodic report containing financial statements to which this certificate is an exhibit fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

2. The information contained in the periodic report to which this certificate is an exhibit fairly presents, in all material respects, the financial condition and results of operations of Fidelity National Information Services, Inc.

In witness whereof, the undersigned has executed and delivered this certificate as of the date set forth opposite his signature below.

Date: August 9, 2006

By: /s/ JEFFREY S. CARBIENER
Jeffrey S. Carbiener
Chief Financial Officer