

Fidelity National Information Services, Inc.

Form 10-Q

May 08, 2007

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**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 March 31, 2007

Or

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

For the transition period from to

Commission File No. 001-16427

Fidelity National Information Services, Inc.

(Exact name of registrant as specified in its charter)

Georgia

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

601 Riverside Avenue

Jacksonville, Florida

(Address of principal executive offices)

37-1490331

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

32204

(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

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 Non-accelerated filer

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

As of March 31, 2007, 192,460,824 shares of the Registrant's Common Stock were outstanding.

FORM 10-Q
QUARTERLY REPORT
Quarter Ended March 31, 2007
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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands)**

	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 222,004	\$ 211,753
Trade receivables, net of allowance for doubtful accounts of \$34.0 million and \$31.5 million, respectively, at March 31, 2007 and December 31, 2006	688,456	623,065
Other receivables	156,389	159,584
Settlement deposits	29,131	25,488
Settlement receivables	21,703	18,442
Receivable from related party	31,323	5,208
Prepaid expenses and other current assets	142,932	148,601
Deferred income taxes	81,237	108,398
Total current assets	1,373,175	1,300,539
Property and equipment, net of accumulated depreciation and amortization of \$264.6 million and \$261.7 million, respectively, at March 31, 2007 and December 31, 2006	348,149	345,799
Goodwill	3,746,347	3,737,540
Intangible assets, net of accumulated amortization of \$489.5 million and \$449.5 million, respectively, at March 31, 2007 and December 31, 2006	977,726	1,009,978
Computer software, net of accumulated amortization of \$353.7 million and \$324.2 million, respectively, at March 31, 2007 and December 31, 2006	654,562	640,815
Deferred contract costs	234,821	233,996
Investment in unconsolidated entities	197,907	195,739
Long term lease receivables	58,826	52,702
Other noncurrent assets	96,954	113,452
Total assets	\$ 7,688,467	\$ 7,630,560
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 464,983	\$ 520,016
Settlement payables	50,834	43,930
Current portion of long-term debt	97,557	61,661
Deferred revenues	257,194	254,908
Total current liabilities	870,568	880,515
Deferred revenues	103,842	104,479
Deferred income taxes	379,330	396,263
	2,931,723	2,947,840

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Long-term debt, including a note payable to FNF of \$13.4 million and \$13.9 million at March 31, 2007 and December 31, 2006, excluding current portion		
Other long-term liabilities	143,245	145,749
Total liabilities	4,428,708	4,474,846
Minority interest	11,719	12,970
Stockholders' equity:		
Preferred stock \$0.01 par value; 200 million shares authorized, none issued and outstanding at March 31, 2007 and December 31, 2006, respectively		
Common stock \$0.01 par value; 600 million shares authorized, 197.4 million shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively	1,974	1,974
Additional paid in capital	2,931,654	2,879,271
Retained earnings	426,843	376,961
Accumulated other comprehensive earnings	48,025	45,009
Treasury stock \$0.01 par value; 5.0 million and 6.4 million shares at March 31, 2007 and December 31, 2006, respectively	(160,456)	(160,471)
Total stockholders' equity	3,248,040	3,142,744
Total liabilities and stockholders' equity	\$ 7,688,467	\$ 7,630,560

See accompanying notes to the consolidated financial statements

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES**

**Consolidated Statements of Earnings
(In thousands, except per share amounts)**

	Three month periods ended March 31,	
	2007	2006
	(Unaudited)	
Processing and services revenues, including \$41.2 million and \$39.4 million of revenues from related parties for the three month periods ended March 31, 2007 and 2006, respectively	\$ 1,124,066	\$ 900,936
Cost of revenues, including expenses to related parties of \$0.5 million and \$0.7 million for the three month periods ended March 31, 2007 and 2006, respectively	813,316	622,337
Gross profit	310,750	278,599
Selling, general, and administrative expenses, including benefits from related parties of \$(1.2) million and \$(0.1) million for the three month periods ended March 31, 2007 and 2006, respectively	119,483	145,729
Research and development costs	27,109	28,060
Operating income	164,158	104,810
Other income (expense):		
Interest income	689	1,891
Interest expense	(72,115)	(43,268)
Other income (expense), net	668	(2,110)
Total other expense	(70,758)	(43,487)
Earnings before income taxes, equity in earnings of unconsolidated entities and minority interest	93,400	61,323
Provision for income taxes	34,745	23,487
Earnings before equity in earnings of unconsolidated entities and minority interest	58,655	37,836
Equity in earnings of unconsolidated entities	936	1,833
Minority interest	(88)	(311)
Net earnings	\$ 59,503	\$ 39,358
Net earnings per share basic	\$ 0.31	\$ 0.23
Weighted average shares outstanding basic	191,898	169,989
Net earnings per share diluted	\$ 0.30	\$ 0.23
Weighted average shares outstanding diluted	195,807	172,987

See accompanying notes to the consolidated financial statements

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

	Three month periods ended March 31, 2007 2006 (Unaudited)	
Net earnings	\$ 59,503	\$ 39,358
Other comprehensive earnings (loss):		
Unrealized gain on Covansys warrants (1)	278	7,517
Unrealized (loss) gain on interest rate swaps (2)	(1,142)	2,285
Unrealized gain on other investments	23	
Unrealized gain on foreign currency translation	3,857	1,238
Other comprehensive earnings	3,016	11,040
Comprehensive earnings	\$ 62,519	\$ 50,398

(1) Net of income tax expense of \$0.1 million and \$4.7 million for the three month periods ended March 31, 2007 and 2006, respectively.

(2) Net of income tax benefit of \$0.7 million and income tax expense of \$1.4 million for the three month periods ended March 31, 2007 and 2006, respectively.

See accompanying notes to the consolidated financial statements

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES**

Consolidated Statement of Stockholders' Equity

(In thousands)

(Unaudited)

	Common Shares	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated other comprehensive earnings (loss)	Treasury Shares	Treasury Stock	Total Stockholders' Equity
Balances, December 31, 2006	197,427	\$ 1,974	\$ 2,879,271	\$ 376,961	\$ 45,009	(6,436)	\$ (160,471)	\$ 3,142,744
Net earnings				59,503				59,503
Dividends declared				(9,621)				(9,621)
Exercise of stock options			33,142			1,470	15	33,157
Tax benefit associated with exercise of stock options			10,752					10,752
Stock-based compensation			8,489					8,489
Unrealized loss on investments and derivatives, net					(841)			(841)
Unrealized gain on foreign currency translation					3,857			3,857
Balances, March 31, 2007	197,427	\$ 1,974	\$ 2,931,654	\$ 426,843	\$ 48,025	(4,966)	\$ (160,456)	\$ 3,248,040

See accompanying notes to the consolidated financial statements

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

	Three month periods ended March 31,	
	2007	2006
	(Unaudited)	
Cash flows from operating activities:		
Net earnings	\$ 59,503	\$ 39,358
Adjustment to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	110,612	96,795
Amortization of debt issuance costs	28,324	1,087
Stock-based compensation	8,489	27,958
Deferred income taxes	8,950	(6,240)
Equity in earnings of unconsolidated entities	(936)	(1,833)
Minority interest	88	311
Changes in assets and liabilities, net of effects from acquisitions:		
Net increase in trade receivables	(65,348)	(50,033)
Net (increase) decrease in prepaid expenses and other assets	(19,813)	98,811
Net increase in deferred contract costs	(8,095)	(39,962)
Net increase in deferred revenue	1,504	24,407
Net decrease in accounts payable, accrued liabilities, and other liabilities	(50,848)	(92,763)
Net cash provided by operating activities	72,430	97,896
Cash flows from investing activities:		
Additions to property and equipment	(27,410)	(27,852)
Additions to capitalized software	(46,706)	(41,412)
Acquisitions, net of cash acquired	(21,196)	125,333
Net cash (used in) provided by investing activities	(95,312)	56,069
Cash flows from financing activities:		
Borrowings	2,700,300	180,000
Debt service payments	(2,689,045)	(277,776)
Capitalized debt issuance costs	(12,573)	
Dividends paid	(9,621)	(9,616)
Stock options exercised	33,157	26,834
Income tax benefit from exercise of stock options	10,752	4,263
Net cash provided by (used in) financing activities	32,970	(76,295)
Effect of foreign currency exchange rates on cash	163	533
Net increase in cash and cash equivalents	10,251	78,203
Cash and cash equivalents, beginning of period	211,753	133,152
Cash and cash equivalents, end of period	\$ 222,004	\$ 211,355

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Cash paid for interest	\$ 51,148	\$ 47,937
Cash paid for taxes	\$ 22,765	\$ 11,789

See accompanying notes to the consolidated financial statements

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Unless stated otherwise or the context otherwise requires, all references in this Form 10-Q to the registrant, us, we, our, the Company or FIS are to Fidelity National Information Services, Inc., a Georgia corporation formerly known as Certegy Inc., and its subsidiaries; all references to Certegy are to Certegy Inc., and its subsidiaries, prior to the Certegy merger described below; all references to Former FIS are to Fidelity National Information Services, Inc., a Delaware corporation, and its subsidiaries, prior to the merger; and all references to Old FNF are to Fidelity National Financial, Inc., a Delaware corporation that owned a majority of our shares through November 9, 2006; and all references to "FNF" are to Fidelity National Financial, Inc. (formerly known as Fidelity National Title Group, Inc.), formerly a subsidiary of Old FNF but now an independent company that remains a related entity from an accounting perspective.

(1) Basis of Presentation

The unaudited financial information included in this report includes the accounts of Fidelity National Information Services, Inc. and its subsidiaries prepared in accordance with generally accepted accounting principles and the instructions to Form 10-Q and Article 10 of Regulation S-X. All adjustments considered necessary for a fair presentation have been included. This report should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

FIS is a leading provider of technology solutions, processing services, and information-based services to the financial services industry. On February 1, 2006, the Company completed a merger with Certegy (the Certegy 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. In form, Certegy was the legal acquirer in the Certegy Merger and the continuing registrant for SEC reporting purposes. However, due to the majority ownership in the combined entity held by FIS shareholders, FIS was designated the acquirer for accounting purposes and, effective on the Certegy Merger date, the historical financial statements of FIS became the historical financial statements of the continuing registrant for all periods prior to the Certegy Merger. The results of operations of Certegy are only included in these historical financial statements for periods subsequent to the Certegy Merger. Immediately after the Certegy Merger, the name of the SEC registrant was changed to Fidelity National Information Services, Inc.

Shortly after consummating the Certegy 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 12). Effective as of February 1, 2006, the Company's reportable segments are Transaction Processing Services, or TPS, and Lender Processing Services, or LPS.

Transaction Processing Services. This segment focuses on serving the processing and risk management needs of financial institutions and retailers. The 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. The Company also provides a number of complementary applications and services that interact directly with the core processing applications, including applications that facilitate interactions between financial institution customers and their clients. The Company offers 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 the Company 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 processes include 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's information solutions include property data and real estate-related services. Included in these services are appraisal and valuation services, property records information, real estate tax services, and borrower credit and flood zone information.

The Company also has a corporate segment that consists of the corporate overhead and other operations that are not included in the other segments.

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AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued****(2) Combination with FNF**

On June 25, 2006, the Company entered into an agreement and plan of merger (the FNF Merger Agreement) with FNF (amended September 18, 2006) (the FNF Merger). The FNF Merger was one step in a plan that eliminated FNF's holding company structure and majority ownership of FIS. In connection with this plan, FNF also entered into a securities exchange and distribution agreement (the SEDA) with its subsidiary Fidelity National Title Group, Inc. (FNT). Under the SEDA, FNF agreed that, prior to the merger, FNF would transfer substantially all its assets and liabilities to FNT, in exchange for shares of FNT common stock. FNF then would spin-off all shares of FNT stock it held to the stockholders of FNF in a tax-free distribution. Pursuant to the FNF Merger Agreement, on November 9, 2006 FNF merged with and into FIS, with FIS continuing as the surviving corporation. In consideration for the FNF Merger, FNF stockholders received an aggregate of 96,521,877 shares of FIS stock for their FNF shares. In addition, in connection with the FNF Merger FIS issued options to purchase FIS common stock and shares of FIS restricted stock in exchange for FNF options and restricted stock outstanding at the time of the FNF Merger. The FNF Merger followed the completion on October 24, 2006, of FNT's acquisition under the SEDA of substantially all of the assets and liabilities of FNF (other than FNF's interests in FIS and in FNF Capital Leasing, Inc., a small subsidiary which merged into FIS in a separate transaction) in exchange for 45,265,956 shares of FNT's Class A common stock, and FNF's subsequent spin-off of FNT shares (the FNT Distribution). Pursuant to the SEDA and after the completion of all of the transactions, FNT was renamed Fidelity National Financial, Inc. (New FNF) and now trades under the symbol FNF. Former FNF Chairman and CEO William P. Foley, II, assumed a similar position in New FNF and now serves as Executive Chairman of FIS, and other key members of FNF senior management continued their involvement in both New FNF and FIS in executive capacities.

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 FNF Merger, the minority interest of FIS has not changed and 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 did not take place, the exchange has been accounted for based on the carrying amounts of our assets and liabilities.

(3) Transactions with Related Parties

The Company has historically conducted business with FNF and its subsidiaries. In March 2005, in connection with the recapitalization of, and sale of a minority equity interest in the Company, FIS entered into various agreements with FNF under which it has continued to provide title agency services, title plant management, and IT services. Further, the Company also entered into service agreements with FNF under which FNF continued to provide corporate services. In September 2005, when FNT was formed and the title insurance business was consolidated under FNT, many of these agreements were amended and restated to take into account the services that would be performed for and by FNT rather than FNF. On February 1, 2006, in connection with the closing of the Certegy Merger, many of these agreements were further amended and restated to reflect changes in the parties' relationships. Certain of these agreements were further amended or terminated in connection with the FNF Merger and related transactions. A summary of these agreements in effect through March 31, 2007 is as follows:

Agreement to provide data processing services. This agreement 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 its subsidiaries. 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 from February 2006 with an option to renew for one or two additional years.

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

Agreements to provide title plant information, maintenance and management. These agreements govern the fee structure under which the Company is paid for maintaining, managing and updating title plants owned by FNF's title underwriters in certain parts of the country. The title plant maintenance agreement 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 FNF as well as to various unaffiliated customers. The Company pays FNF a royalty fee of 2.5% to 3.75% of the revenues received. 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. 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 in May 2005 (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 is paid for providing software development and services to FNF which consist of developing software for use in the title operations of FNF.

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

Agreements by FNF to provide corporate services to the Company. Through November 9, 2006, these agreements provided for FNF to provide general management, accounting, treasury, tax, finance, payroll, human resources, employee benefits, internal audit, mergers and acquisitions, and other corporate and administrative support to the Company. Since November 9, 2006, these charges only relate to certain less significant activities performed or recorded by FNF on behalf of the Company. The pricing of these services is 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 in providing such services based on estimates that FNF and the Company believe to be reasonable.

Licensing, leasing, cost sharing and other 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, as well as the payment of certain amounts by the Company to FNF or its subsidiaries in connection with the Company's use of certain intellectual property or other assets of or services by FNF.

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 FNF 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 ranging from July 2004 through September 2006 for various agreements (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 \$32.2 million and \$18.8 million for the three months ended March 31, 2007 and 2006, respectively, representing commissions on title insurance policies placed by the Company on behalf of title insurance subsidiaries of FNF. These commissions in

aggregate are equal to approximately 88% of the total title premium from title policies that the Company places with subsidiaries of FNF. The Company also performs similar functions in connection with trustee sale guarantees, a form of title insurance that subsidiaries of FNF issue as part of the foreclosure process on a defaulted loan.

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

A detail of related party items included in revenues, for the three month periods ending March 31, 2007 and March 31, 2006, is as follows (in millions):

	2007	2006
Data processing services revenue	\$ 12.0	\$ 16.9
Title plant information, maintenance, and management revenue	12.7	12.2
Software development and services revenue	13.2	7.4
Other real estate related services	3.3	2.9
Total revenues	\$ 41.2	\$ 39.4

A detail of related party items included in operating expenses, for the three month periods ending March 31, 2007 and March 31, 2006, is as follows (in millions):

	2007	2006
Title plant information, maintenance, and management expense	\$ 0.5	\$ 0.7
Corporate services	0.9	2.4
Licensing, leasing, cost sharing, and other services	(2.1)	(2.5)
Total expenses	\$ (0.7)	\$ 0.6

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 approximate 88% aggregate 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 the Company and other similar vendors charge unaffiliated title insurers. The Company's IT infrastructure support and data center management services to FNF are priced within the range of prices the Company offers to third parties. These transactions between the Company and FNF are subject to constant review for performance and pricing.

The Company also provides data processing services to Sedgwick CMS, a company in which FNF has held an approximately 40% equity interest since February 1, 2006. The Company recorded \$8.3 million in revenue relating to this arrangement with Sedgwick during the three months ended March 31, 2007. The Company received no revenue during the three months ended March 31, 2006.

Other related party transactions:

Contribution of National New York

During the second quarter of 2006, FNF contributed the stock of National Title Insurance of New York, Inc. (National New York), a title insurance company, to the Company. This transaction was reflected as a contribution of capital from FNF in the amount of FNF's historical basis in National New York of approximately \$10.7 million.

Merger with FNF Capital

On October 26, 2006, the Company completed a merger with FNF Capital, Inc. (FNF Capital), a leasing subsidiary of FNF. The Company issued 279,000 shares of the Company's common stock to FNF in exchange for a majority ownership in FNF Capital. The transaction was recorded at FNF's historical basis in FNF Capital of approximately \$2.3 million and the Company purchased the minority ownership shortly thereafter for \$3.8 million in cash. Through the merger, the Company assumed a note payable to FNF of \$13.9 million, and the Company recorded \$0.2 million of interest expense related to this note during the three months ended March 31, 2007.

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

The contribution of National New York and the merger with FNF Capital were completed between entities under common control and their results of operations and account balances have been included in the Company's results of operations and statement of financial position since the date of the relevant transactions. Had the Company included the results of operations and balance sheets for all periods presented in the Consolidated Financial Statements, net earnings would have increased \$0.2 million for the three months ended March 31, 2006.

Investment by FNF in Fidelity National Real Estate Solutions, Inc.

On December 31, 2006, FNF contributed \$52.5 million to Fidelity National Real Estate Solutions, Inc. (FNRES), a subsidiary of the Company, for approximately 61% of the outstanding shares of FNRES. As a result, since December 31, 2006, the Company no longer consolidates FNRES, but has recorded its remaining 39% interest as an equity investment in the amount of \$32.7 million and \$33.5 million as of March 31, 2007 and December 31, 2006, respectively. The Company recorded \$0.5 million in equity losses (net of tax), from its investment in FNRES, for the three months ended March 31, 2007.

Master Services Agreement with Covansys

The Company also entered into a master service provider agreement with Covansys, an entity in which the Company holds a 29% equity interest (see Note 6), which requires the Company to purchase a minimum of \$150 million in services over a five year period expiring June 30, 2009 or be subject to certain penalties if defined spending thresholds are not met. The Company does not believe any future penalties will be incurred under the agreement. For the three month periods ended March 31, 2007 and March 31, 2006 the Company spent \$10.6 million and \$6.1 million, respectively, purchasing services from Covansys and its subsidiaries.

Transactions with Banco Bradesco S.A. and ABN AMRO Real

During the three month periods ended March 31, 2007 and March 31, 2006, the Company recorded revenues of \$13.2 million and \$0.1 million, respectively, from ABN AMRO Real and \$8.6 million and \$1.3 million, respectively, from Banco Bradesco, which are venture partners in the Company's Brazilian card business.

(4) Unaudited Net Earnings per Share

The basic weighted average shares and common stock equivalents for the quarters ended March 31, 2007 and 2006 are computed in accordance with FASB Statement 128, *Earnings per Share*, using the treasury stock method.

The following table summarizes the earnings per share, for the three month periods ending March 31, 2007 and March 31, 2006 (in thousands, except per share amounts):

	2007	2006
Net earnings	\$ 59,503	\$ 39,358
Weighted average shares outstanding - basic	191,898	169,989
Plus: Common stock equivalent shares assumed from conversion of options	3,909	2,998
Weighted average shares outstanding - diluted	195,807	172,987
Basic net earnings per share	\$ 0.31	\$ 0.23
Diluted net earnings per share	\$ 0.30	\$ 0.23