
**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, 2004

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

Certegy Inc.

(Exact name of registrant as specified in its charter)

Georgia
(State or other jurisdiction
of incorporation or organization)

11720 Amber Park Drive
Alpharetta, Georgia
(Address of principal executive offices)

58-2606325
(I.R.S. Employer
Identification No.)

30004
(Zip Code)

(678) 867-8000
(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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Title of each class | Number of shares outstanding at July 31, 2004 |
|--------------------------------|--|
| Common stock, \$0.01 par value | 63,386,869 |

CERTEGY INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CERTEGY INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(In thousands, except per share amounts)

| | Three Months Ended June 30, | |
|--|--------------------------------|------------|
| | 2004 | 2003 |
| Revenues | \$ 284,124 | \$ 247,392 |
| Operating expenses: | | |
| Costs of services | 209,564 | 182,836 |
| Selling, general and administrative expenses | 31,910 | 27,591 |
| Other (Note 4) | — | (437) |
| | 241,474 | 209,990 |
| Operating income | 42,650 | 37,402 |
| Other income, net | 85 | 828 |
| Interest expense | (3,153) | (1,628) |
| Income before income taxes | 39,582 | 36,602 |
| Provision for income taxes | (14,645) | (13,634) |
| Net income | \$ 24,937 | \$ 22,968 |
| Earnings per share of Common Stock | | |
| Basic | \$ 0.40 | \$ 0.35 |
| Diluted | \$ 0.39 | \$ 0.35 |
| Average shares outstanding (Note 5) | | |
| Basic | 63,083 | 65,536 |
| Diluted | 64,272 | 66,077 |
| Dividends per share of Common Stock (Note 12) | \$ 0.05 | |

The accompanying notes are an integral part of these Consolidated Financial Statements.

CERTEGY INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(In thousands, except per share amounts)

| | Six Months Ended June 30, | |
|--|------------------------------|------------|
| | 2004 | 2003 |
| Revenues | \$ 547,533 | \$ 487,561 |
| Operating expenses: | | |
| Costs of services | 407,857 | 360,729 |
| Selling, general and administrative expenses | 61,480 | 56,271 |
| Other (Note 4) | — | 12,203 |
| | 469,337 | 429,203 |
| Operating income | 78,196 | 58,358 |
| Other income, net | 305 | 983 |
| Interest expense | (6,129) | (3,309) |
| Income before income taxes | 72,372 | 56,032 |
| Provision for income taxes | (26,778) | (20,872) |
| Net income | \$ 45,594 | \$ 35,160 |
| Earnings per share of Common Stock | | |
| Basic | \$ 0.72 | \$ 0.54 |
| Diluted | \$ 0.71 | \$ 0.53 |
| Average shares outstanding (Note 5) | | |
| Basic | 63,380 | 65,687 |
| Diluted | 64,478 | 66,170 |
| Dividends per share of Common Stock (Note 12) | \$ 0.10 | |

The accompanying notes are an integral part of these Consolidated Financial Statements.

CERTEGY INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except par values)

| | June 30, 2004 | December 31, 2003 |
|---|------------------|----------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 57,331 | \$ 22,280 |
| Settlement deposits | 40,869 | 29,638 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$2,760 and \$1,883 in 2004 and 2003, respectively | 96,929 | 108,158 |
| Settlement receivables | 63,003 | 65,172 |
| Claims recoverable | 29,382 | 46,478 |
| Other receivables (Note 16) | 33,727 | 26,907 |
| Other current assets (Notes 6 and 16) | 24,209 | 22,995 |
| Total current assets | 345,450 | 321,628 |
| Property and equipment, net (Note 7) | 61,187 | 58,897 |
| Goodwill, net (Note 8) | 218,900 | 187,627 |
| Other intangible assets, net (Note 8) | 45,069 | 31,799 |
| Systems development and other deferred costs, net | 116,729 | 118,788 |
| Other assets, net (Note 9) | 72,495 | 66,308 |
| Total assets | \$ 859,830 | \$ 785,047 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses (Note 16) | \$ 59,497 | \$ 41,600 |
| Settlement payables | 103,872 | 94,810 |
| Claims payable | 22,377 | 38,270 |
| Compensation and benefit liabilities (Note 16) | 20,452 | 20,535 |
| Income taxes payable | 8,616 | 8,887 |
| Other payables (Note 16) | 18,963 | 10,855 |
| Other current liabilities (Notes 10 and 16) | 37,462 | 29,136 |
| Total current liabilities | 271,239 | 244,093 |
| Long-term debt (Note 11) | 259,808 | 222,399 |
| Deferred income taxes | 51,190 | 43,939 |
| Other long-term liabilities | 16,526 | 13,477 |
| Total liabilities | 598,763 | 523,908 |
| Commitments and contingencies (Note 14) | | |
| Shareholders' equity: | | |
| Preferred stock, \$0.01 par value; 100,000 shares authorized; none issued and outstanding | | |
| Common stock, \$0.01 par value; 300,000 shares authorized; 69,507 shares issued and 63,682 and 64,352 shares outstanding in 2004 and 2003, respectively | 695 | 695 |
| Paid-in capital | 251,060 | 249,351 |
| Retained earnings | 265,709 | 226,495 |
| Deferred compensation | (12,312) | (10,187) |
| Accumulated other comprehensive loss (Note 12) | (84,904) | (75,854) |
| Treasury stock, at cost; 5,825 and 5,155 shares in 2004 and 2003, respectively | (159,181) | (129,361) |
| Total shareholders' equity | 261,067 | 261,139 |
| Total liabilities and shareholders' equity | \$ 859,830 | \$ 785,047 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

CERTEGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands)

| | Six Months Ended June 30, | |
|---|------------------------------|-----------|
| | 2004 | 2003 |
| Cash flows from operating activities: | | |
| Net income | \$ 45,594 | \$ 35,160 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 22,426 | 20,062 |
| Amortization of deferred compensation and financing costs | 3,105 | 2,573 |
| Other non-cash items | — | 2,233 |
| Deferred income taxes | 7,301 | 748 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 17,394 | 17,447 |
| Current liabilities, excluding settlement and claims payables | 266 | 12,598 |
| Claims accounts, net | 1,331 | (2,865) |
| Other current assets | (555) | 176 |
| Other long-term liabilities | 2,838 | 1,607 |
| Other assets | (2,276) | (4,793) |
| Net cash provided by operating activities | 97,424 | 84,946 |
| Cash flows from investing activities: | | |
| Capital expenditures | (17,225) | (23,570) |
| Acquisitions, net of \$25,071 of cash acquired | (38,758) | — |
| Net cash used in investing activities | (55,983) | (23,570) |
| Cash flows from financing activities: | | |
| Net borrowings (repayments) on revolving credit facility | 35,000 | (29,200) |
| Treasury stock purchases | (40,005) | (11,796) |
| Dividends paid | (6,414) | — |
| Proceeds from exercise of stock options | 7,255 | 1,050 |
| Other | (213) | — |
| Net cash used in financing activities | (4,377) | (39,946) |
| Effect of foreign currency exchange rates on cash | (2,013) | 4,223 |
| Net cash provided | 35,051 | 25,653 |
| Cash and cash equivalents, beginning of period | 22,280 | 14,166 |
| Cash and cash equivalents, end of period | \$ 57,331 | \$ 39,819 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(Dollars in thousands, except per share amounts or unless otherwise noted)

1. Basis of Presentation

The Company provides credit and debit card 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 (see Note 15 for segment information). Card Services provides card issuer services in the U.S., the U.K., Brazil, Chile, Australia, New Zealand, Ireland, Thailand, and the Dominican Republic. Additionally, Card Services provides merchant processing and e-banking services in the U.S. and card issuer software, support, and consulting services in numerous countries. Check Services provides check risk management services and related processing services in the U.S., the U.K., Canada, France, Ireland, Australia, and New Zealand.

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries and should be read in conjunction with the Company's consolidated financial statements and the notes to those statements for the year ended December 31, 2003 included in the Company's annual report on Form 10-K. Significant accounting policies disclosed in the annual report have not changed. All significant intercompany transactions and balances have been eliminated.

The Company has prepared these consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. This information reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of the consolidated financial position, results of operations, and cash flows for the interim periods presented. All adjustments made have been of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading. Certain prior period amounts have been reclassified to conform to the current period presentation. Results of operations reported for interim periods are not necessarily indicative of results for the entire year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

2. Significant Accounting Policies

Reserve for Card Merchant Processing Losses. In the Company's direct card merchant processing business, if, due to the insolvency or bankruptcy of the merchant or other reasons, the Company is not able to collect amounts from its merchant customers that have been properly "charged back" by the cardholders, it must bear the credit risk for the full amount of the cardholder transaction. The Company requires cash deposits and other types of collateral from certain merchants to minimize any such risk. In addition, the Company utilizes a number of systems and procedures to manage merchant risk and believes that the diversification of its merchant portfolio among industries and geographic regions reduces its risk of loss. The Company recognizes a reserve for estimated merchant credit losses based on historical experience and other relevant factors. This reserve amount is subject to risk that actual losses may be greater than the Company's estimates. At June 30, 2004 and December 31, 2003, the Company had aggregate card merchant processing loss reserves of \$1.1 million and \$1.1 million, respectively, which are included in other current liabilities in the consolidated balance sheets.

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Reserve for Check Guarantee Losses. 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 its merchant customer for the check's face value and pursues collection of the amount from the delinquent check writer. The Company's merchant customers have approximately 60 days from the check date to present claims for dishonored checks to the Company. The Company has a maximum potential liability equal to the value of all checks presented to its merchant customers; however, through historical experience and analysis, the Company is able to reasonably estimate its liability for check returns. The Company recognizes a liability to its merchant customers for its estimated check returns (claims payable) and a receivable for amounts the Company estimates it will recover from the check writers (claims recoverable), based on historical experience and other relevant factors. 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. The Company had accrued claims payable and accrued claims recoverable of \$22.4 million and \$29.4 million, respectively, at June 30, 2004, and \$38.3 million and \$46.5 million, respectively, at December 31, 2003.

The Company settles its claim obligations with merchants, on average, within 14 days from the date of receipt. Recoverability of claims from the check writers extends beyond this timeframe, but generally occurs within one year.

Stock-Based Compensation. Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS 148"), establishes accounting and reporting standards for stock-based employee compensation plans. SFAS 148, which was issued in December 2002, requires disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and its effect on the reported results. As permitted by the standard, the Company has elected to apply APB Opinion No. 25 "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option plans. Accordingly, the Company does not recognize compensation cost in connection with its stock option plans. If the Company had elected to recognize compensation cost for these plans based on the fair value at the replacement date (for stock options that existed at the date of the Company's spin-off from Equifax Inc.) and grant dates as prescribed by SFAS 123, net income and earnings per share would have been reduced to the following pro forma amounts for the three and six months ended June 30, 2004 and 2003:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|-----------|------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income as reported | \$ 24,937 | \$ 22,968 | \$ 45,594 | \$ 35,160 |
| Pro forma compensation cost, net of tax | (1,950) | (1,845) | (3,665) | (4,036) |
| Pro forma net income | \$ 22,987 | \$ 21,123 | \$ 41,929 | \$ 31,124 |
| Earnings per share (basic): | | | | |
| As reported | \$ 0.40 | \$ 0.35 | \$ 0.72 | \$ 0.54 |
| Pro forma | \$ 0.36 | \$ 0.32 | \$ 0.66 | \$ 0.47 |
| Earnings per share (diluted): | | | | |
| As reported | \$ 0.39 | \$ 0.35 | \$ 0.71 | \$ 0.53 |
| Pro forma | \$ 0.36 | \$ 0.32 | \$ 0.65 | \$ 0.47 |

3. Acquisitions

On March 1, 2004, the Company completed the purchases of Game Financial Corporation (“Game Financial”), a provider of debit and credit card cash advances, ATM access and check cashing services in gaming institutions, and Crittson Financial Services LLC (“Crittson”), a full service provider of card and merchant processing services. The acquisition of Crittson further strengthens the Company’s U.S. market share as the leading third party credit card processor for community banks and credit unions. The acquisition of Game Financial positions the Company as a leading provider of comprehensive cash access services in the fast-growing gaming industry, and broadens its check risk management product line and customer base. These acquisitions had an aggregate cash purchase price of \$39.2 million, net of \$24.6 million of cash acquired. The preliminary purchase price allocation resulted in identifiable intangible assets of \$16.4 million, which are being amortized over five to seven years, and goodwill of \$36.7 million. The Company expects that 100 percent of the goodwill resulting from these acquisitions will be tax deductible. These acquisitions were accounted for as purchases and their results of operations have been included in the consolidated statements of income from the dates of acquisition.

During the second quarter of 2004, the Company recorded certain purchase price allocation adjustments. These adjustments resulted in additional goodwill of \$174 thousand to record certain accruals for Game Financial, and a decrease in goodwill of \$444 thousand to record cash received for a working capital purchase price adjustment for Crittson.

Both acquisition purchases include additional consideration that may be payable to the Company or to the sellers. These include base revenue measurements, customer-based adjustments, and working capital adjustments, which vary in timing from ninety days to one year from the acquisition date. When and if paid, these adjustments will result in changes to the purchase price allocation.

In July 2004, the Company announced plans to acquire the assets of Caribbean CariCard Services, Inc., a third-party transaction processor in the Caribbean for approximately \$7.0 million in cash. The Company expects this pending acquisition to position the Company as a leading payment services provider throughout the Caribbean market. The closing of the transaction, which is subject to customary closing conditions, is expected to occur in early August 2004.

4. Other Charges

It is the Company’s policy to present other charges, such as severance, impairment, or restructuring charges, if significant for a given reporting period, on a separate line item within operating expenses in the consolidated statements of income. In the normal course of business, it is not unusual for the Company to have ongoing severance charges that are not significant and therefore, not presented separately in the consolidated statements of income.

During the second quarter of 2003, the Company recorded a \$0.4 million (\$0.3 million after-tax, or \$0.004 per diluted share) market value recovery of the Company’s collateral assignment in life insurance policies held for the benefit of certain employees. During the first six months of 2003, the Company recorded other charges of \$12.2 million (\$7.7 million after-tax, or \$0.12 per diluted share). These charges include \$9.6 million of early termination costs associated with a U.S. data processing contract, \$2.7 million of charges related to the downsizing of the Company’s Brazilian card operation, and \$(0.1) of other items. These charges were recorded in accordance with SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities,” and SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” See Note 15 for details of these charges by segment.

The following table summarizes the severance charges and contract termination costs incurred to date as described above, the changes in the accruals through June 30, 2004, and the ending balances in the accruals:

| | <u>Costs Incurred To Date</u> | <u>Payments</u> | <u>Accrual June 30, 2004</u> |
|----------------------------|-----------------------------------|-------------------|----------------------------------|
| Contract termination costs | \$ 9,804 | \$ (9,804) | \$ — |
| Severance charges | 910 | (889) | 21 |
| | <u>\$ 10,714</u> | <u>\$(10,693)</u> | <u>\$ 21</u> |

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5. Earnings Per Share

Basic earnings per share (“EPS”) is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that would occur if stock options or other contracts to issue common stock were exercised and resulted in additional common shares outstanding during the period. A reconciliation of the average outstanding shares used in the basic and diluted EPS calculations is as follows (in thousands):

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|--------|------------------------------|--------|
| | 2004 | 2003 | 2004 | 2003 |
| Weighted average shares outstanding—basic | 63,083 | 65,536 | 63,380 | 65,687 |
| Effect of dilutive securities: | | | | |
| Stock options | 890 | 394 | 799 | 336 |
| Restricted stock | 299 | 147 | 299 | 147 |
| Weighted average shares outstanding—diluted | 64,272 | 66,077 | 64,478 | 66,170 |

6. Other Current Assets

The Company’s other current assets at June 30, 2004 and December 31, 2003 consist of the following:

| | June 30, 2004 | December 31, 2003 |
|-------------------------------|------------------|----------------------|
| Prepaid expenses | \$12,437 | \$ 11,658 |
| Current deferred income taxes | 2,120 | 1,933 |
| Inventories and supplies | 2,029 | 1,889 |
| Other | 7,623 | 7,515 |
| | <u>\$24,209</u> | <u>\$ 22,995</u> |

7. Property and Equipment

The cost of property and equipment is depreciated on a straight-line basis over estimated useful lives as follows: building—40 years; leasehold improvements—not to exceed lease terms; data processing equipment—3 to 5 years; and furniture and fixtures—3 to 8 years. Maintenance and repairs are charged to expense as incurred.

Property and equipment at June 30, 2004 and December 31, 2003 consists of the following:

| | June 30, 2004 | December 31, 2003 |
|---|------------------|----------------------|
| Land | \$ 1,500 | \$ 1,500 |
| Building and improvements | 38,209 | 37,794 |
| Data processing equipment and furniture | 121,909 | 114,316 |
| | <u>161,618</u> | <u>153,610</u> |
| Less accumulated depreciation | (100,431) | (94,713) |
| | <u>\$ 61,187</u> | <u>\$ 58,897</u> |

Equipment under capital lease, which is included in data processing equipment and furniture above, totaled \$3.2 million at June 30, 2004 and \$0.6 million at December 31, 2003. Accumulated depreciation related to these assets totaled approximately \$307 thousand at June 30, 2004 and \$44 thousand at December 31, 2003.

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8. Goodwill and Other Intangible Assets

Information related to the Company's goodwill by segment is as follows:

| | June 30, 2004 | December 31, 2003 |
|----------------|-------------------|----------------------|
| Card Services | \$ 172,914 | \$ 157,968 |
| Check Services | 45,986 | 29,659 |
| | <u>\$ 218,900</u> | <u>\$ 187,627</u> |

Information related to the Company's acquired intangible assets subject to amortization is as follows:

| | June 30, 2004 | | December 31, 2003 | |
|---------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Merchant portfolios | \$30,080 | \$ 8,803 | \$28,729 | \$ 7,262 |
| Other | 28,154 | 4,362 | 12,996 | 2,664 |
| | <u>\$58,234</u> | <u>\$ 13,165</u> | <u>\$41,725</u> | <u>\$ 9,926</u> |
| Net book value | <u>\$45,069</u> | | <u>\$31,799</u> | |

The Company's other intangible assets primarily consist of acquired customer contracts, data files, and customer lists, which are generally amortized on a straight-line basis over their estimated useful lives, ranging from 5 to 15 years. Amortization expense associated with the Company's acquired intangible assets totaled \$1.8 million and \$1.1 million for the three months ended June 30, 2004 and 2003, respectively, and \$3.2 million and \$2.2 million for the six months ended June 30, 2004 and 2003, respectively. Estimated amortization expense for the Company's acquired intangible assets for each of the five succeeding fiscal years is as follows: 2005—\$7.2 million; 2006—\$7.2 million; 2007—\$7.2 million; 2008—\$5.6 million; and 2009—\$5.6 million.

The change in the carrying amount of goodwill and other intangible assets from December 31, 2003 to June 30, 2004 was the result of the acquisitions of Game Financial and Crittson (Note 3) and currency translation adjustments.

The Company has no intangible assets with indefinite useful lives.

9. Other Assets

Other assets principally consist of prepaid pension cost, life insurance policies, purchased software, and deferred income taxes. The costs of purchased software used to provide services to customers or for internal administrative services are capitalized and amortized on a straight-line basis over five to eight years, as determined by their estimated useful lives.

Other assets, net consist of the following:

| | June 30, 2004 | December 31, 2003 |
|---|------------------|----------------------|
| Prepaid pension cost | \$18,236 | \$ 19,428 |
| Cash surrender value of life insurance policies | 13,513 | 10,816 |
| Purchased software, net | 9,693 | 11,425 |
| Deferred income taxes | 6,634 | 6,691 |
| SERP intangible asset | 3,863 | 4,356 |
| Other | 20,556 | 13,592 |
| | <u>\$72,495</u> | <u>\$ 66,308</u> |

10. Other Current Liabilities

The Company's other current liabilities at June 30, 2004 and December 31, 2003 consist of the following:

| | June 30, 2004 | December 31, 2003 |
|------------------|------------------|----------------------|
| Deferred revenue | \$ 7,130 | \$ 8,833 |
| Accrued interest | 2,979 | 3,179 |
| Other | 27,353 | 17,124 |
| | <u>\$37,462</u> | <u>\$ 29,136</u> |

11. Long-Term Debt

Long-term debt at June 30, 2004 and December 31, 2003 consists of the following:

| | June 30, 2004 | December 31, 2003 |
|---|-------------------|----------------------|
| Unsecured notes, 4.75%, due 2008, net of unamortized discount | \$ 199,481 | \$ 199,420 |
| Borrowings under revolving credit facility | 35,000 | — |
| Notes payable, 1.76%, due 2009 | 22,364 | 22,364 |
| Capital lease obligations | 2,963 | 615 |
| | <u>\$ 259,808</u> | <u>\$ 222,399</u> |

12. Shareholders' Equity

Comprehensive Income. The components of comprehensive income for the three and six months ended June 30, 2004 and 2003 are as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|-----------------|------------------------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income | \$ 24,937 | \$22,968 | \$45,594 | \$35,160 |
| Change in cumulative foreign currency translation adjustment | (10,857) | 24,004 | (9,296) | 29,168 |
| Change in cumulative loss from cash flow hedging activities | 375 | (181) | 246 | (253) |
| Comprehensive income | <u>\$ 14,455</u> | <u>\$46,791</u> | <u>\$36,544</u> | <u>\$64,075</u> |

Accumulated other comprehensive loss at June 30, 2004 and December 31, 2003 consists of the following components:

| | June 30, 2004 | December 31, 2003 |
|--|-------------------|----------------------|
| Cumulative foreign currency translation adjustment | \$(84,403) | \$ (75,107) |
| Cumulative loss from cash flow hedging activities | (501) | (747) |
| Accumulated other comprehensive loss | <u>\$(84,904)</u> | <u>\$ (75,854)</u> |

Treasury Stock. During the first six months of 2004, the Company repurchased approximately 1.2 million shares of its common stock at an aggregate cost of \$40.0 million. Including approximately 6.1 million shares repurchased prior to 2004, the Company has repurchased a total of approximately 7.3 million shares through June 30, 2004. In May 2004, the Board of Directors of the Company approved \$100 million in share repurchase authority, which replaced the prior authority. As of June 30, 2004, the Company had \$99.8 million of remaining authorization for future share repurchases. During the first six months of 2004, the Company reissued approximately 0.5 million treasury shares in connection with employee stock option exercises and restricted stock awards.

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Dividends. In February 2004, the Company's Board of Directors approved a quarterly common stock dividend of \$0.05 per share, or \$3.2 million, which was paid on April 15, 2004 to shareholders of record as of the close of business on April 1, 2004. In May 2004, the Company's Board of Directors approved a quarterly common stock dividend of \$0.05 per share, or \$3.2 million, which was paid on July 15, 2004 to shareholders of record as of the close of business on July 1, 2004.

Deferred Compensation. During the first six months of 2004, the Company granted approximately 0.1 million shares of restricted stock to key employees under the Stock Incentive Plan. The shares become fully vested in three or four years if certain performance criteria are met; otherwise, they vest at the end of five years. Compensation expense associated with these awards can fluctuate each year based on the likelihood that the performance criteria will be met. Compensation expense associated with all restricted stock awards issued to date was \$1.3 million and \$1.1 million for the three months ended June 30, 2004 and 2003, respectively, and \$2.5 million and \$1.9 million for the six months ended June 30, 2004 and 2003, respectively.

13. Employee Benefits

Net periodic benefit cost for the Company's retirement, supplemental retirement ("SERP"), and postretirement benefit plans includes the following components for the three months and six months ended June 30, 2004 and 2003:

| | Retirement Plans | | Postretirement Benefit Plan | | Retirement Plans | | Postretirement Benefit Plan | |
|------------------------------------|-----------------------------|---------------|-----------------------------|-------------|---------------------------|---------------|-----------------------------|--------------|
| | Three months ended June 30, | | | | Six months ended June 30, | | | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Service cost | \$ 903 | \$ 794 | \$ 51 | \$ 46 | \$ 1,806 | \$ 1,588 | \$ 111 | \$ 92 |
| Interest cost | 790 | 591 | 30 | 23 | 1,580 | 1,182 | 62 | 46 |
| Expected return on plan assets | (1,108) | (1,079) | — | — | (2,216) | (2,158) | — | — |
| Recognized actuarial loss | 109 | — | — | — | 218 | — | — | — |
| Amortization of net (gain) or loss | — | — | (32) | (20) | — | — | (64) | (40) |
| Amortization of prior service cost | 128 | 7 | (13) | (43) | 256 | 14 | (30) | (86) |
| Net periodic benefit cost | \$ 822 | \$ 313 | \$ 36 | \$ 6 | \$ 1,644 | \$ 626 | \$ 79 | \$ 12 |

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act") was enacted. The Act introduced both a Medicare prescription drug benefit and a federal subsidy to sponsors of retiree healthcare plans. In January 2004, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. 106-1 ("FSP 106-1"), "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." This statement permitted a sponsor of a postretirement benefit plan that provides a prescription drug benefit to make a one-time election to defer recognizing the effects of the Act until authoritative guidance on accounting for the federal subsidy was issued or until certain other events occurred. In May 2004, the FASB issued FASB Staff Position No. 106-2 ("FSP 106-2"), "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," which superseded FSP 106-1. FSP 106-2 provides guidance on the accounting for the effects of the Act and requires certain disclosures regarding the effect of the federal subsidy provided by the Act. FSP 106-2 will become effective for the Company in the third quarter of 2004. The Company maintains a postretirement benefit plan which provides a prescription drug benefit. The Company expects that application of this guidance will not have a material impact on the Company's consolidated financial statements.

14. Commitments and Contingencies

Synthetic Leases. The Company is the tenant of certain real property located in St. Petersburg, Florida. The aggregate value of the building and land at that site when the Company entered into this arrangement was \$23.2 million. Subject to the satisfaction of certain conditions, the Company has the option to acquire this leased property at its original cost, or to direct the sale of this facility to a third party. The Company has provided a guarantee to the lessor that the proceeds from a sale of the facility to a third party will equal or exceed a certain percentage of the original fair market value of the leased property. The Company's maximum exposure under this guarantee is approximately \$18.1 million.

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Effective December 31, 2003, the Company began consolidating this lease arrangement into its consolidated financial statements in accordance with certain provisions of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" ("FIN 46").

The Company is also a party to a synthetic lease arrangement with respect to its facilities in Madison, Wisconsin, which expires in 2009. The aggregate value of the building and land at that site when the Company entered into this arrangement was \$10.1 million. Subject to the satisfaction of certain conditions, the Company has the option to acquire this leased property at its original cost, or to direct the sale of this facility to a third party. The Company has provided a guarantee to the lessor that the proceeds from a sale of the facility to a third party will equal or exceed a certain percentage of the original fair market value of the leased property. The Company's maximum exposure under this guarantee is approximately \$8.1 million.

This lease arrangement does not qualify as a variable interest entity under the provisions of FIN 46; therefore, it is not included in the consolidated financial statements of the Company.

Based on current market conditions, the Company does not expect to be required to make payments under either of these residual value guarantees.

The Company has entered into an interest rate swap arrangement to fix the variable interest rate on the Madison, Wisconsin lease obligation.

15. Segment Information

Segment information for the three months and six months ended June 30, 2004 and 2003 is as follows (intersegment sales and transfers, which are not material, have been eliminated):

| | Three months ended June 30, | | Six months ended June 30, | |
|---------------------------|--------------------------------|------------------|------------------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Revenues: | | | | |
| Card Services | \$173,388 | \$160,316 | \$336,111 | \$317,492 |
| Check Services | 110,736 | 87,076 | 211,422 | 170,069 |
| | <u>\$284,124</u> | <u>\$247,392</u> | <u>\$547,533</u> | <u>\$487,561</u> |
| Operating income: | | | | |
| Card Services | \$36,058 | \$31,867 | \$68,441 | \$51,825 |
| Check Services | 12,191 | 8,999 | 20,958 | 14,973 |
| | <u>48,249</u> | <u>40,866</u> | <u>89,399</u> | <u>66,798</u> |
| General Corporate Expense | (5,599) | (3,464) | (11,203) | (8,440) |
| | <u>\$42,650</u> | <u>\$37,402</u> | <u>\$78,196</u> | <u>\$58,358</u> |

The above general corporate expense for the three months ended June 30, 2003 includes a \$0.4 million market value recovery of the Company's collateral assignment in life insurance policies, which is included in other charges in the Company's consolidated statements of income (Note 4).

The above operating income for the six months ended June 30, 2003 includes other charges (Note 4) as follows:

| | Contract Termination Costs | Brazil Downsizing | Other | Total |
|---------------------------|----------------------------------|----------------------|----------------|-----------------|
| Card Services | \$8,757 | \$2,740 | \$— | \$11,497 |
| Check Services | 865 | — | 156 | 1,021 |
| General corporate expense | — | — | (315) | (315) |
| | <u>\$9,622</u> | <u>\$2,740</u> | <u>\$(159)</u> | <u>\$12,203</u> |

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Total assets by segment at June 30, 2004 and December 31, 2003 are as follows:

| | June 30, 2004 | December 31, 2003 |
|----------------|-------------------|----------------------|
| Card Services | \$ 539,929 | \$ 511,118 |
| Check Services | 256,166 | 215,529 |
| | <u>796,095</u> | <u>726,647</u> |
| Corporate | 63,735 | 58,400 |
| | <u>\$ 859,830</u> | <u>\$ 785,047</u> |

16. Balance Sheet Reclassifications

Certain December 31, 2003 balance sheet amounts have been reclassified to conform to the current period presentation as follows:

| | As previously reported | Reclassification | Current period presentation |
|---|---------------------------|--------------------|--------------------------------|
| Assets: | | | |
| Other receivables | \$ — | \$ 26,907 | \$ 26,907 |
| Other current assets: | | | |
| Other receivables | \$ 26,907 | \$ (26,907) | \$ — |
| Prepaid expenses | 11,658 | — | 11,658 |
| Current deferred income taxes | 1,933 | — | 1,933 |
| Inventories and supplies | 1,889 | — | 1,889 |
| Other | 7,515 | — | 7,515 |
| | <u>\$ 49,902</u> | <u>\$ (26,907)</u> | <u>\$ 22,995</u> |
| Liabilities: | | | |
| Accounts payable and accrued expenses | \$ 22,280 | \$ 19,320 | \$ 41,600 |
| Compensation and benefit liabilities | \$ 12,324 | \$ 8,211 | \$ 20,535 |
| Other payables | \$ — | \$ 10,855 | \$ 10,855 |
| Other current liabilities: | | | |
| Accrued employee payroll taxes, withholdings, and benefits | \$ 8,211 | \$ (8,211) | \$ — |
| Deferred revenue | 8,833 | — | 8,833 |
| Accrued interest | 3,179 | — | 3,179 |
| Other accrued expenses | 19,320 | (19,320) | — |
| Other | 27,979 | (10,855) | 17,124 |
| | <u>\$ 67,522</u> | <u>\$ (38,386)</u> | <u>\$ 29,136</u> |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements for the three months and the six months ended June 30, 2004 and 2003, including the notes to those statements, included elsewhere in this report. We also recommend that this management's discussion and analysis be read in conjunction with the management's discussion and analysis and consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2003.

Overview

We provide credit and debit card 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. Card Services provides card issuing services in the U.S., the U.K., Brazil, Chile, Australia, New Zealand, Ireland, Thailand, and the Dominican Republic. Additionally, Card Services provides merchant processing and e-banking services in the U.S. and card issuing software, support, and consulting services in numerous countries. Check Services provides check risk management services and related processing services in the U.S., the U.K., Canada, France, Ireland, Australia, and New Zealand.

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Card Services. Card Services provides a full range of card issuer services that enable banks, credit unions, retailers, 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. Additionally, we began processing American Express cards in January 2003. Our debit card services support both off-line debit cards, which are processed similarly to credit cards, and on-line debit cards, through which cardholders obtain immediate access to funds in their bank accounts through ATMs or merchant point-of-sale terminals. In the U.S., our card processing business is concentrated in the independent community bank and credit union segments of the market, while internationally, we service both large and small financial institutions. We provide our card issuer services internationally through our operations in the U.S., Brazil, Chile, the U.K., and Australia. Our merchant processing services enable retailers and other businesses to accept credit, debit, and other electronic payment cards from purchasers of their goods and services, while our e-banking services enable financial institutions to offer Internet banking and related products to consumers and businesses. Card issuing software, support, and consulting services allow customers to manage their credit card programs.

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. Over the past six years, we pursued growth in international markets through acquisitions in Brazil and Chile and the start-up of our card processing operations in the U.K. and Australia. In 2000, we entered into a five-year agreement with a multi-national Australian-based financial institution to process cards issued in Australia, New Zealand, the U.K., and Ireland, with operations commencing in the second quarter of 2001. This financial institution is serviced from our card processing operation in Australia, as well as from our card processing operation in the U.K. In 2003, we entered into an eight-year agreement with a Thailand financial institution, whereby it will outsource the processing of its VISA and MasterCard credit cards and unsecured personal loans. This financial institution is also serviced from our card processing operation in Australia. Card Services plans to pursue further card processing opportunities in the Asia Pacific Region, utilizing our Australian operation as the processing center.

We believe that the increased use of credit, debit, and other electronic payment cards around the globe will continue to present the card processing industry with significant growth opportunities. We intend to continue to expand our card processing business in the independent community bank and credit union segments of the market. Moreover, our future growth and profitability will significantly depend upon our ability to penetrate additional international markets, including emerging markets for electronic transaction processing. Our certification as an American Express processor also provides further growth opportunities for us in the global card market.

Check Services. Check Services provides check risk management and related processing products and services to businesses accepting or cashing checks at the point-of-sale. These services utilize our proprietary check authorization systems and risk assessment decision platforms. A significant portion of our revenues from check risk management services is generated from several large national and regional merchants, including national retail chains. Other customers of our Check Services segment include hotels, automotive dealers, telecommunications companies, supermarkets, casinos, mail order houses, and other businesses. Our services allow our clients to run their customers' personal and business checks through an automated decision-making process that assesses the likelihood that a check will clear. We provide our check risk management products and services internationally in Canada, the U.K., Ireland, France, Australia, and New Zealand. Our principal product in all those countries is check guarantee services, although mass retailers are beginning to utilize our check verification, collection services, and deferred debit processing services.

In recent years, we have introduced several new products for existing and new markets, such as third-party check collections; electronic check risk management solutions for point-of-sale, call center, and electronic commerce applications; and PayCheck Accept™, which enables supermarkets and gaming establishments to reduce the risk of check losses and fraud in connection with their payroll check cashing services. Additionally, the acquisition of Game Financial Corporation ("Game Financial") on March 1, 2004, positions us as a leading provider of comprehensive cash access services in the fast-growing gaming industry, and broadens our check risk management product line and customer base.

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We believe check writing has begun to decline as a total percentage of point-of-sale payments due, in part, to the growing use of debit and credit cards. At the same time, however, demand for our services is high due to factors that include increasing sophistication of check fraud and higher concentration of bad checks written at the point-of-sale due to a trend of higher credit quality consumers paying more with credit and debit cards and writing fewer checks. These factors are contributing to a growing reliance of retailers and other businesses on outside vendors, such as us, to provide check risk management services.

Business Developments

\$200 Million Note Offering. In September 2003, we completed our offering of \$200 million aggregate principal amount of 4.75 percent senior unsecured notes, which mature in September 2008. The proceeds from this offering were used to pay off the outstanding indebtedness under our \$300 million revolving credit facility and for general corporate purposes. In conjunction with the issuance of these notes, our first and second quarters of 2004 results include additional interest expense on the notes as compared to the prior year quarters.

Adoption of FIN 46. On December 31, 2003, we adopted certain provisions of Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" ("FIN 46") as required for the synthetic lease on our St. Petersburg, Florida facility. In conjunction with the adoption of FIN 46, our first and second quarters of 2004 results include additional interest expense on the notes underlying this synthetic lease as compared to the prior year quarters.

Other Charges in the First Half of 2003. During the second quarter of 2003, we recorded a \$0.4 million (\$0.3 million after tax, or \$0.004 per diluted share) market value recovery of our collateral assignment in life insurance policies held for the benefit of certain employees within operating expenses. During the first six months of 2003, we recorded other charges of \$12.2 million (\$7.7 million after-tax, or \$0.12 per diluted share) within operating expenses. These charges include \$9.6 million of early termination costs associated with a data processing contract, \$2.7 million of charges related to the downsizing of our Brazilian card operation primarily due to the loss of a large customer, Banco Real, in March 2003, and \$(0.1) million of other items. These charges were recorded in accordance with Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

Acquisitions. On March 1, 2004, we completed the purchases of Game Financial, a provider of debit and credit card cash advances, ATM access and check cashing services in gaming institutions, and Crittson Financial Services LLC ("Crittson"), a full service provider of card and merchant processing services. The acquisition of Crittson further strengthens our U.S. market share as the leading third party credit card processor for community banks and credit unions. The acquisition of Game Financial positions us as a leading provider of comprehensive cash access services in the fast-growing gaming industry, and broadens our check risk management product line and customer base. These acquisitions had an aggregate cash purchase price of \$39.2 million, net of \$24.6 million of cash acquired. The preliminary purchase price allocation resulted in identifiable intangible assets of \$16.4 million, which are being amortized over five to seven years, and goodwill of \$36.7 million.

These acquisitions were accounted for as purchases and their results of operations have been included in the consolidated statements of income from the dates of acquisition. We expect these acquisitions to add approximately \$60 million of revenue in 2004.

During the second quarter of 2004, we recorded certain purchase price allocation adjustments. These adjustments resulted in additional goodwill of \$174 thousand to record certain accruals for Game Financial, and a decrease in goodwill of \$444 thousand to record cash received for a working capital purchase price adjustment for Crittson.

Both acquisition purchases include additional consideration that may be payable to us or to the sellers. This includes base revenue measurements, customer-based adjustments, and working capital adjustments, which vary in timing from ninety days to one year from the acquisition date. When and if paid, these adjustments will result in changes to the purchase price allocation.

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In July 2004, we announced plans to acquire the assets of Caribbean CariCard Services, Inc., a third-party transaction processor in the Caribbean, for approximately \$7.0 million in cash. We expect this pending acquisition to position us as a leading payment services provider throughout the Caribbean market. The closing of the transaction, which is subject to customary closing conditions, is expected to occur in early August 2004.

Components of Income Statement

Card Services generates revenues from charges based on transaction volumes (U.S.), accounts or cards processed (globally), and fees for various services and products (globally), while Check Services generates revenues from charges based on transaction volumes, face value of checks guaranteed, and fees for various check services and products. Revenues depend upon a number of factors, such as demand for and price of our services, the technological competitiveness of our product line, our reputation for providing timely and reliable service, competition within our industry, and general economic conditions. Costs of services consist primarily of the costs of transaction processing systems; personnel costs to develop and maintain applications, operate computer networks, and provide customer support; losses from check guarantee services; interchange (processing fees paid to credit card associations) and other fees related to merchant processing; depreciation and occupancy costs associated with the facilities where these functions are performed; and reimbursed out-of-pocket expenses. Selling, general, and administrative expenses consist primarily of salaries, wages, and related expenses paid to sales, non-revenue customer support functions, and administrative employees and management.

As part of our card merchant processing business, we contract directly with merchants, as well as with merchants' financial institutions. When we have a direct relationship with a merchant, revenues collected for our services are based primarily on a discount rate, which considers the cost of interchange fees. When our relationship is with a merchant's financial institution, we collect the interchange fees in addition to our transaction fees. In both instances, we are responsible for collecting the interchange fees after settling with the credit card associations. Interchange fees are recorded as a component of revenues and costs of services.

Summary of the 2004 Second Quarter Consolidated Financial Results

Highlights of the 2004 second quarter consolidated financial results as compared to the 2003 second quarter, including other charges, are as follows:

- Revenues grew 14.8 percent to \$284.1 million.
- Operating income increased 14.0 percent to \$42.7 million.
- Interest expense of \$3.2 million increased by \$1.5 million.
- Net income increased 8.6 percent to \$24.9 million.
- Diluted earnings per share increased 11.4% to \$0.39 per share.

In the second quarter of 2004, we repurchased approximately 494 thousand shares of our common stock at a cost of \$17.5 million, while capital expenditures totaled \$10.1 million.

Throughout this management's discussion and analysis, we refer to certain financial amounts both on a before- and after-tax basis. Management believes it is helpful to include the after-tax effect of certain financial charges to allow investors and management to evaluate their impact on net income and diluted earnings per share.

Consolidated Results of Operations

The following table summarizes our consolidated results for the three months and the six months ended June 30, 2004 and 2003:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------|--|----------|--|----------|
| | 2004 | 2003(1) | 2004 | 2003(1) |
| | (In millions, except per share amounts) | | (In millions, except per share amounts) | |
| Revenues | \$284.1 | \$247.4 | \$547.5 | \$487.6 |
| Operating expenses | \$241.5 | \$210.0 | \$469.3 | \$429.2 |
| Operating income | \$ 42.7 | \$ 37.4 | \$ 78.2 | \$ 58.4 |
| Other income, net | \$ 0.1 | \$ 0.8 | \$ 0.3 | \$ 1.0 |
| Interest expense | \$ (3.2) | \$ (1.6) | \$ (6.1) | \$ (3.3) |
| Net income | \$ 24.9 | \$ 23.0 | \$ 45.6 | \$ 35.2 |
| Basic earnings per share | \$ 0.40 | \$ 0.35 | \$ 0.72 | \$ 0.54 |
| Diluted earnings per share | \$ 0.39 | \$ 0.35 | \$ 0.71 | \$ 0.53 |

- (1) The consolidated results for the three months and the six months ended June 30, 2003 include a \$0.4 million (\$0.3 million after-tax, or \$0.004 per diluted share) market value recovery on life insurance policies and other charges of \$12.2 million (\$7.7 million after-tax, or \$0.12 per diluted share), respectively, as previously described.

Consolidated Revenues**Second Quarter 2004 compared with Second Quarter 2003**

Consolidated revenue in the second quarter of 2004 of \$284.1 million increased \$36.7 million, or 14.8 percent, over the second quarter of 2003. Card Services revenues grew \$13.1 million, or 8.2 percent, while Check Services experienced revenue growth of \$23.7 million, or 27.2 percent.

Revenue growth of 27.2 percent in global Check Services, 11.5 percent in merchant processing and 9.9 percent in North America card issuing offset a slight decline in International card issuing and a reduction in software revenue. Global Check Services' growth was driven by increased retail check volumes, new customer signings, and growth from the acquisition of Game Financial in the first quarter of 2004. The increase in merchant processing revenue was a result of higher retail sales and the acquisition of Crittson, which closed in the first quarter of 2004. Revenue growth in North America card issuing was driven by higher transaction volume, new sales of e-banking services and card loyalty programs, and revenue from the acquisition of Crittson. The strengthening of certain foreign currencies against the U.S. dollar increased total revenues by \$3.2 million in the second quarter of 2004.

First Six Months 2004 compared with First Six Months 2003

Consolidated revenue in the first six months of 2004 of \$547.5 million increased \$60.0 million, or 12.3 percent, over the first six months of 2003. Card Services revenues grew \$18.6 million, or 5.9 percent, while Check Services experienced revenue growth of \$41.4 million, or 24.3 percent.

Overall, revenue growth of 10.4 percent in North America card issuing, 9.5 percent in merchant processing and 24.3 percent growth in global Check Services more than offset declines in international card issuing and software revenue. The first quarter of 2004 was the final quarter of difficult comparisons caused by the loss of a large customer in our Brazilian card operations in March 2003. The strengthening of certain foreign currencies against the U.S. dollar increased total U.S. dollar revenues by \$8.7 million in the first six months of 2004. With the recent acquisitions and the annualization of the loss of the large Brazilian customer complete, we expect overall growth rates to improve over the remainder of the year.

Consolidated Operating Expenses

Second Quarter 2004 compared with Second Quarter 2003

Consolidated operating expenses in the second quarter of 2004 of \$241.5 million increased \$31.5 million, or 15.0 percent, over the second quarter of 2003. Operating expenses for Card Services increased \$8.9 million, or 6.9 percent, while Check Services increased \$20.5 million, or 26.2 percent. Corporate expenses of \$5.6 million increased \$2.1 million above the second quarter of 2003. The 2003 consolidated operating expenses include a \$0.4 million market value recovery of our collateral assignment in life insurance.

Costs of services in the second quarter of 2004 of \$209.6 million increased \$26.7 million, or 14.6 percent, over the second quarter of 2003. Card Services experienced an \$8.7 million, or 7.4 percent, increase in costs of services primarily driven by a \$3.2 million increase in card merchant processing interchange fees (costs of services included \$37.7 million and \$34.5 million of interchange fees in 2004 and 2003, respectively), a \$2.1 million increase in reimbursable expenses in our North American card issuing business, and the Crittson acquisition. Costs of services in Check Services increased \$18.0 million, or 27.5 percent, driven by volume growth in our global core check businesses, as well as the acquisition of Game Financial.

Selling, general, and administrative (“SG&A”) expenses in the second quarter of 2004 of \$31.9 million increased \$4.3 million, or 15.7 percent, over the second quarter of 2003. Card Services experienced a \$0.2 million, or 1.8 percent, increase in SG&A costs as the downsizing of our Brazilian card operations in 2003 largely offset higher costs in our North America issuing and merchant operations resulting from core revenue growth and the Crittson acquisition. SG&A costs in Check Services increased \$2.4 million, or 19.4 percent, primarily driven by revenue growth and the Game Financial acquisition. Corporate SG&A expense increased \$1.7 million, primarily resulting from higher employee-related expenses, including benefits and relocation costs. Corporate SG&A expense in the second quarter of 2003 included a \$0.4 million market value recovery of our collateral assignment in life insurance.

First Six Months 2004 compared with First Six Months 2003

Consolidated operating expenses in the first six months of 2004 of \$469.3 million increased \$40.1 million, or 9.4 percent, over the first six months of 2003. Operating expenses for Card Services increased \$2.0 million, or 0.8 percent, while Check Services increased \$35.4 million, or 22.8 percent. Corporate expenses of \$11.2 million increased \$2.8 million above the first six months of 2003. The 2003 consolidated operating expenses include \$12.2 million of other charges.

Costs of services in the first six months of 2004 of \$407.9 million increased \$47.1 million, or 13.1 percent, over the first six months of 2003. Card Services experienced a \$13.7 million, or 5.9 percent, increase in costs of services primarily driven by a \$5.2 million increase in card merchant processing interchange fees (costs of services included \$71.4 million and \$66.2 million of interchange fees in 2004 and 2003, respectively), a \$4.8 million increase in reimbursable expenses in our North American card issuing business, and the Crittson acquisition. Costs of services in Check Services increased \$33.5 million, or 25.9 percent, driven by volume growth in our global core check businesses, as well as the acquisition of Game Financial.

Selling, general, and administrative expenses in the first six months of 2004 of \$61.5 million increased \$5.2 million, or 9.3 percent, over the first six months of 2003. Card Services experienced a \$0.2 million, or 0.7 percent, decrease in SG&A costs driven by the downsizing of our Brazilian card operations in March 2003 and lower software support and consulting fees. SG&A costs in Check Services increased \$2.9 million, or 11.8 percent, as a result of solid revenue growth in our global check core operations and the Game Financial acquisition. Corporate SG&A expense increased \$2.4 million, or 28.0 percent, primarily due to higher employee benefit and relocation costs.

During the first six months of 2003, we recorded other charges of \$12.2 million (\$7.7 million after-tax). These charges include \$9.6 million of early termination costs associated with a U.S. data processing contract, \$2.7 million of charges related to the downsizing of our Brazilian card operations, \$0.2 million of severance charges, and a \$0.3 million market value recovery on our collateral assignment in life insurance policies. Page 22 provides a detail of these charges by segment.

Consolidated Operating Income

Second Quarter 2004 compared with Second Quarter 2003

Consolidated operating income in the second quarter of 2004 increased \$5.2 million, or 14.0 percent, over the second quarter of 2003. Card Services operating income increased \$4.2 million, or 13.2 percent, while Check Services operating income increased \$3.2 million, or 35.5 percent. General corporate expense increased \$2.1 million, or 61.6 percent over the second quarter of 2003. Our consolidated operating margin of 15.0 percent in 2004 approximated the 2003 margin of 15.1 percent. The 2003 consolidated operating income includes a \$0.4 million market value recovery on our collateral assignment in life insurance policies.

The operating income growth experienced in the second quarter of 2004 was primarily driven by revenue growth in North American card issuing, merchant processing, and global Check Services. The strengthening of certain foreign currencies against the U.S. dollar increased total U.S. dollar operating income by approximately \$0.5 million in the second quarter of 2004.

First Six Months 2004 compared with First Six Months 2003

Consolidated operating income in the first six months of 2004 increased \$19.8 million, or 34.0 percent, over the first six months of 2003. Card Services operating income increased \$16.6 million, or 32.1 percent, while Check Services operating income increased \$6.0 million, or 40.0 percent. General corporate expense increased \$2.8 million, over the first six months of 2003. Our consolidated operating margin grew from 12.0 percent in 2003 to 14.3 percent in 2004. The 2003 consolidated operating income includes \$12.2 million of other charges.

The operating income growth experienced in the first six months of 2004 was primarily driven by core revenue growth in North American card issuing, merchant processing, and global Check Services and the acquisitions of Crittson and Game Financial in March of 2004. The strengthening of certain foreign currencies against the U.S. dollar increased total U.S. dollar operating income by approximately \$0.6 million in the first six months of 2004.

Consolidated Other Income, Net

Consolidated other income, net, which principally consists of interest income, totaled \$85 thousand and \$828 thousand during the first six months of 2004 and 2003, respectively, and \$0.3 million and \$1.0 million during the first six months 2004 and 2003, respectively.

Consolidated Interest Expense

Interest expense during the second quarter and the first six months of 2004 totaled \$3.2 million and \$6.1 million, respectively, which represents a \$1.5 million and a \$2.8 million increase over the prior year periods, respectively. The increase in interest expense is primarily driven by the issuance of our \$200 million of five-year notes at 4.75 percent in September 2003, which resulted in a higher rate of interest. During the first six months of 2004, we also incurred interest expense on our revolving credit facility related to borrowings for our acquisitions in the first quarter of 2004. In addition, the new lease accounting (FIN 46) on our St. Petersburg facility resulted in higher interest expense in 2004.

Effective Tax Rate

Our effective tax rates were 37.0 percent and 37.25 percent in 2004 and 2003, respectively. Our lower effective rate in 2004 was driven by the implementation of certain international and state tax planning strategies, as well as the mix of foreign versus domestic income.

Consolidated Net Income and Earnings per Share

Second Quarter 2004 compared with Second Quarter 2003

Consolidated net income in the second quarter of 2004 of \$24.9 million increased \$2.0 million, or 8.6 percent, compared to the second quarter of 2003, while diluted earnings per share in the second quarter of 2004 of \$0.39 rose \$0.04, or 11.4 percent. The second quarter of 2003 consolidated net income includes a \$0.4 million (\$0.3 million after-tax) market value recovery on our collateral assignment in life insurance policies.

The repurchase of 3.2 million shares of common stock subsequent to the second quarter of 2003 had a favorable impact on earnings per share compared to the prior year by reducing our weighted average shares outstanding for the second quarter of 2004 by approximately 3.1 million shares.

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First Six Months 2004 compared with First Six Months 2003

Consolidated net income in the first six months of 2004 of \$45.6 million increased \$10.4 million, or 29.7 percent, compared to the first six months of 2003, while diluted earnings per share in the first six months of 2004 of \$0.71 increased \$0.18, or 34.0 percent. The first six months of 2003 consolidated net income includes \$12.2 million of other charges (\$7.7 million after-tax, or \$0.12 per diluted share).

The repurchase of 3.2 million shares of common stock subsequent to the first six months of 2003 had a favorable impact on earnings per share compared to the prior year by reducing our weighted average shares outstanding for the first six months of 2004 by approximately 2.7 million shares.

Segment Results

The following table summarizes our segment results for the three months and the six months ended June 30, 2004 and 2003:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------|-----------------------------|----------------|---------------------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| | (in millions) | | (in millions) | |
| Revenues: | | | | |
| Card Services | 173.4 | 160.3 | 336.1 | 317.5 |
| Check Services | 110.7 | 87.1 | 211.4 | 170.1 |
| | <u>\$284.1</u> | <u>\$247.4</u> | <u>\$547.5</u> | <u>\$487.6</u> |
| Operating Income: | | | | |
| Card Services | \$ 36.1 | \$ 31.9 | \$ 68.4 | \$ 51.8 |
| Check Services | 12.2 | 9.0 | 21.0 | 15.0 |
| | <u>48.3</u> | <u>40.9</u> | <u>89.4</u> | <u>66.8</u> |
| General corporate expense | (5.6) | (3.5) | (11.2) | (8.4) |
| | <u>\$ 42.7</u> | <u>\$ 37.4</u> | <u>\$ 78.2</u> | <u>\$ 58.4</u> |

The operating income results for the three months and the six months ended June 30, 2003 include other charges, by segment, as follows:

| | Three Months Ended June 30, 2003 | | | | Six Months Ended June 30, 2003 | | | |
|---|----------------------------------|------------|----------------|----------------|--------------------------------|---------------|----------------|---------------|
| | Card | Check | Corp | Total | Card | Check | Corp | Total |
| | (In millions) | | | | | | | |
| Contract termination costs | \$— | \$— | \$— | \$— | \$ 8.8 | \$ 0.8 | \$— | \$ 9.6 |
| Brazil downsizing | — | — | — | — | 2.7 | — | — | 2.7 |
| Other severance charges | — | — | — | — | — | 0.2 | — | 0.2 |
| Market value recovery of collateral assignment in life insurance policies | — | — | (0.4) | (0.4) | — | — | (0.3) | (0.3) |
| | <u>\$—</u> | <u>\$—</u> | <u>\$(0.4)</u> | <u>\$(0.4)</u> | <u>\$11.5</u> | <u>\$ 1.0</u> | <u>\$(0.3)</u> | <u>\$12.2</u> |

Card Services

Second Quarter 2004 compared with Second Quarter 2003

Card Services revenues of \$173.4 million in the second quarter of 2004 increased \$13.1 million, or 8.2 percent, above the second quarter of 2003, primarily driven by North America card issuing and merchant processing. The strengthening of certain foreign currencies against the U.S. dollar increased our U.S. dollar revenues by approximately \$1.4 million in the second quarter of 2004. At June 30, 2004, our worldwide cards processed amounted to 48.1 million, which is an increase of 1.3 million cards during the quarter.

North American card issuing revenues of \$101.8 million grew 9.9 percent, or \$9.2 million, compared with revenues of \$92.6 million in the second quarter of 2003. This increase was fueled by growth in debit transactions, enhancement program revenue, and e-banking products and services, as well as the Crittson acquisition. North American card transactions rose 5.6 percent over the prior year quarter, driven by growth in debit card transactions of 9.1 percent.

International card issuing revenues of \$21.6 million declined \$0.1 million, or 0.4 percent, from the second quarter 2003 revenues of \$21.7 million, caused primarily by the purging of inactive cards by certain customers and prior year pricing adjustments in the Brazilian marketplace. This decline was largely offset by the strengthening of certain foreign currencies against the U.S. dollar, which increased our U.S. dollar revenues by approximately \$1.4 million in the second quarter of 2004. As of June 30, 2004, we were processing 24.2 million cards outside of North America, which is an increase of 0.9 million cards during the second quarter of 2004.

Merchant processing revenues of \$48.7 million in the second quarter of 2004 increased \$5.0 million, or 11.5 percent, above the second quarter of 2003 revenues of \$43.7 million, driven by higher retail sales and revenue from the Crittson acquisition. Interchange pass-through revenue grew from \$34.5 million in the second quarter of 2003 to \$37.7 million in the second quarter of 2004, an increase of \$3.2 million.

Card issuing software and support revenue of \$1.3 million decreased \$1.0 million compared with \$2.3 million in the second quarter of 2003, which is attributable to a large software implementation and consulting project that was substantially completed in late 2003.

Card Services operating income of \$36.1 million in the second quarter of 2004 increased \$4.2 million, or 13.2 percent, above the second quarter of 2003. Top-line growth outside of South America, as well as cost efficiency gains in North America and the U.K. and lower SG&A costs in the Brazilian operations contributed to the growth in operating income. Currency rate fluctuations contributed \$158 thousand to our U.S. dollar operating income in the second quarter of 2004.

First Six Months 2004 compared with First Six Months 2003

Card Services revenues of \$336.1 million in the first six months of 2004 increased \$18.6 million, or 5.9 percent, above the first six months of 2003, due to growth in North America card issuing and merchant processing. The strengthening of certain foreign currencies against the U.S. dollar increased our U.S. dollar revenues by approximately \$4.7 million in the first six months of 2004.

North American card issuing revenues of \$197.0 million in the first six months of 2004 increased \$18.5 million, or 10.4 percent, over the prior year period revenues of \$178.5 million. This increase was fueled by growth in debit transactions, enhancement program revenue, e-banking products and services, and the Crittson acquisition.

International card issuing revenues of \$44.2 million in the first six months of 2004 decreased \$5.0 million, or 10.1 percent, from the prior year period revenues of \$49.2 million, primarily driven by the loss of our largest customer in our Brazilian card operations in March 2003. The strengthening of certain foreign currencies against the U.S. dollar increased our U.S. dollar revenues by approximately \$4.7 million in the first six months of 2004. Now that we have anniversaried the loss of the large Brazilian customer, we expect our international card business to deliver positive top-line growth over the remainder of the year.

Merchant processing revenues of \$92.1 million in the first six months of 2004 increased \$8.0 million, or 9.5 percent, from \$84.1 million in the first six months of 2003, primarily driven by an improving economy as well as the Crittson acquisition. Interchange pass-through revenue grew from \$66.2 million in 2003 to \$71.4 million in 2004, an increase of \$5.2 million.

Card issuing software and support revenue of \$2.8 million decreased \$2.9 million compared with the first six months of 2003 revenue of \$5.7 million, attributable to a large software implementation and consulting project that was substantially completed in late 2003.

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Card Services operating income of \$68.4 million in the first six months of 2004 increased \$16.6 million, or 32.1 percent, compared to operating income of \$51.8 million in the first six months of 2003, which includes \$11.5 million of other charges. Top-line growth outside of South America, as well as cost efficiency gains in North America and the U.K., more than offset the comparative profit impact of the Brazilian operations. Currency rate changes reduced our U.S. dollar operating income by approximately \$0.2 million in the first six months of 2004.

Check Services

Second Quarter 2004 compared with Second Quarter 2003

Check Services revenues of \$110.7 million in the second quarter of 2004 increased \$23.7 million, or 27.2 percent, over the second quarter of 2003, driven by increased retail check volumes, new customer signings, continued migration of verification volume to guarantee volume, and the acquisition of Game Financial in March of 2004. The strengthening of certain foreign currencies against the U.S. dollar increased our U.S. dollar revenues by approximately \$1.8 million in the second quarter of 2004. The face amount of checks we authorized totaled \$9.5 billion in the second quarter of 2004 as compared to \$8.3 billion in the prior year quarter. Guarantee volumes grew from \$6.6 billion in 2003 to \$7.2 billion in 2004, a 9.7 percent increase over the prior year quarter.

North American check revenues of \$93.6 million increased \$21.4 million, or 29.7 percent, over the second quarter of 2003 revenues of \$72.2 million, driven by higher retail sales resulting from the strengthening economy, new domestic customers, and the acquisition of Game Financial. The face amount of checks we authorized in the U.S. totaled \$8.6 billion in the second quarter of 2004 as compared to \$7.5 billion in the prior year quarter.

International check revenues increased \$2.2 million, or 14.9 percent, from \$14.9 million in the second quarter of 2003 to \$17.1 million in the second quarter of 2004. The face amount of checks we authorized increased to \$0.9 billion in the second quarter of 2004 as compared to \$0.8 billion in the prior year quarter. The strengthening of foreign currencies against the U.S. dollar increased our U.S. dollar revenues by approximately \$1.8 million in the second quarter of 2004.

Check Services operating income of \$12.2 million in the second quarter of 2004 increased \$3.2 million, or 35.5 percent, compared to operating income of \$9.0 million in the second quarter of 2003. The growth in Check Services operating income is attributable to top-line growth, improved net loss experience in our domestic core check business, and the acquisition of Game Financial. The strengthening of certain foreign currencies against the U.S. dollar increased our U.S. dollar operating income by approximately \$0.4 million in the second quarter of 2004.

First Six Months 2004 compared with First Six Months 2003

Check Services revenues of \$211.4 million in the first six months of 2004 increased \$41.4 million, or 24.3 percent, over the first six months of 2003, driven by increased retail check volumes, new customer signings, continued migration of verification volume to guarantee volume, and the acquisition of Game Financial. In addition, the strengthening of foreign currencies against the U.S. dollar increased our U.S. dollar revenues by approximately \$4.0 million in the first six months of 2004.

North American check revenues of \$176.8 million increased \$35.6 million, or 25.2 percent, compared with revenues of \$141.2 million in the first six months of 2003, driven by a strengthening economy, an improving job market, and new domestic customers. Also, the continued rollout of new check cashing locations and the acquisition of Game Financial contributed to North America revenue growth.

International check revenues of \$34.6 million in the first six months of 2004 increased \$5.8 million, or 19.9 percent, over the first six months of 2003 revenues of \$28.9 million due primarily to higher volumes. The strengthening of the British pound against the U.S. dollar increased our U.S. dollar revenues by approximately \$4.0 million in the first six months of 2004.

Check Services operating income of \$21.0 million in the first six months of 2004 increased \$6.0 million, or 40.0 percent, compared to operating income of \$15.0 million in the first six months of 2003, which includes \$1.0 million of other charges. The growth in Check Services operating income is attributable to top-line growth, improved net loss experience in our domestic core check business, and the acquisition of Game Financial in March 2004. The strengthening of foreign currencies against the U.S. dollar increased our U.S. dollar operating income by approximately \$0.8 million in the first six months of 2004.

General Corporate Expense

Second Quarter 2004 compared with Second Quarter 2003

General corporate expense of \$5.6 million in the second quarter of 2004 increased \$2.1 million, compared to \$3.5 million in the second quarter of 2003, which benefited from a \$0.4 million market value recovery on our collateral assignment in life insurance policies. The increase in general corporate expense is primarily attributable to an expected rise in employee benefits costs, as well as certain relocation costs.

First Six Months 2004 compared with First Six Months 2003

General corporate expense of \$11.2 million in the first six months of 2004 increased \$2.8 million, or 32.7 percent, compared to general corporate expense of \$8.4 million in the first six months of 2003, which includes a \$0.3 million market value recovery on our collateral assignment in life insurance policies. The increase in general corporate expense is due in large part to higher employee-related costs including benefits and relocation.

Liquidity and Capital Resources

We have historically generated and continue to generate significant cash flows from our operating activities that we use to further invest in our business through expenditures for capital and strategic acquisitions. Additionally, since our spin-off from Equifax in 2001, we have engaged in periodic repurchases of our common shares, when it has been deemed appropriate, and began to pay cash dividends to our shareholders in 2003. Proceeds from stock option exercises have varied each year, primarily driven by changes in our stock price.

In conjunction with the spin-off from Equifax, we made a cash payment to Equifax in the amount of \$275 million in July 2001 to reflect Certegy's share of Equifax's pre-distribution debt used to establish our initial capitalization. This payment was funded through \$400 million of unsecured revolving credit facilities. Since that time, we have used available cash flow to reduce our outstanding balance on these facilities and on September 10, 2003, we used the proceeds from our offering of 4.75 percent fixed rate five-year notes with a face value of \$200 million to pay down the remaining revolver balance.

On March 1, 2004, we completed the purchases of Game Financial and Crittson. These acquisitions had an aggregate cash purchase price of \$38.8 million, net of \$25.1 million of cash acquired (including a purchase price adjustment of \$0.4 million related to the Crittson acquisition, which was settled in the second quarter of 2004). We funded these acquisitions through borrowings on our revolving credit facility and as of June 30, 2004, had \$35 million outstanding on this facility. A majority of the cash acquired with these acquisitions relates to Game Financial, which provides check cashing and cash advance services for the gaming industry. In certain casino locations, Game Financial maintains cash access booths, where consumers can cash personal checks, and various "point-of-sale" devices, where cash advance services are facilitated. These point-of-sale devices include PC's, kiosks, and ATMs. In other casino locations, these transactions are conducted in the casino's own cage operation by casino employees using Game Financial's system.

Additionally, we repurchased approximately 1.2 million shares of our common stock during the first six months of 2004 at a total cost of \$40.0 million. In May 2004, our Board of Directors approved \$100 million in share repurchase authority, which replaced our prior authority. At July 31, 2004, we had \$87.9 million of remaining repurchase authority.

We regularly evaluate cash requirements for current operations, development activities, and acquisitions. We may elect to raise additional funds for these purposes, either through further bank financing or the public capital markets, as appropriate. Based on our recent financial results and current financial position, we believe that additional funding will be available if required to meet our capital requirements.

Operating Activities. We continue to generate significant cash flows from our operating activities. Operating cash flows totaled \$97.4 million in the first six months of 2004, which represents an increase of \$12.5 million compared to the first six months of 2003. The 2004 cash flow generated from net income was \$45.6 million, adjusted for depreciation and amortization of \$22.4 million, deferred taxes of \$7.3 million, and other amortization of \$3.1 million. Cash flow generated from net working capital items was \$19.0 million.

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The working capital items noted above primarily include the following: a \$17.4 million cash inflow from accounts receivable, compared to \$17.4 million in 2003, and a \$0.3 million cash inflow for current liabilities, compared to a \$12.6 million cash inflow in 2003, primarily related to the timing of the U.S. data processing contract termination accrual in the first six months of 2003.

We used our cash flow from operating activities primarily to reinvest in our existing businesses through expenditures for equipment and systems development, as well as to repurchase shares, make dividend payments, and partially fund our acquisitions of Game Financial and Crittson.

Investing Activities. Capital expenditures in the first six months of 2004 totaled \$17.2 million, which represents a decrease of \$6.3 million compared to the prior year, although we expect 2004 capital expenditures to approximate \$49 million. Capital expenditures in the first six months of 2004 were primarily for processing equipment and software in our global card issuing operations and systems development for new products and services. The acquisitions of Game Financial and Crittson totaled \$38.8 million, which is net of \$24.6 million of cash acquired and \$0.4 million of cash received during the second quarter of 2004 for working capital adjustments associated with the Crittson acquisition.

Financing Activities. Net borrowings on our revolving credit facility in the first six months of 2004, which were primarily related to the acquisitions of Game Financial and Crittson, totaled \$35 million. We repurchased approximately 1.2 million shares of common stock during the first six months of 2004 at a total cost of \$40.0 million. Proceeds from the exercise of stock options in the first six months of 2004 totaled \$7.3 million, compared with \$1.1 million in the prior year. In November 2003, the Board of Directors approved a quarterly common stock dividend of \$0.05 per share, which totaled \$3.2 million and was paid on January 15, 2004. In February 2004, the Board of Directors approved a quarterly dividend of \$0.05 per share, which totaled \$3.2 million and was paid on April 15, 2004.

Seasonality, Inflation, and Economic Downturns

We are subject to certain seasonal fluctuations, such as peak activity during the holiday buying season. We do not believe that inflation has had a material effect on our operating results; however, inflation could adversely affect our financial results were it to result in a substantial weakening in economic conditions that adversely affects the level of consumer spending. Our check revenue growth in the first half of 2004 has been positively impacted by strengthening retail sales.

The Brazilian market is characterized by political and economic uncertainty that causes volatility in currency values, and historically has resulted in severe inflationary pressures. Notwithstanding this uncertainty, we believe that the long-term prospects offered by the Brazilian market are attractive and our continued focus on growing our Brazilian business and attaining cost efficiencies should provide us with a cost structure that can withstand short-term declines in business driven by the uncertain market and the loss of our largest customer in March 2003.

Our Brazilian operations had net assets of approximately \$97.0 million at June 30, 2004, which includes a net equity reduction of \$103.4 million as a result of cumulative foreign currency translation. Pursuant to SFAS 142 and SFAS 144, these assets are subject to regular evaluations to assess their recoverability. In the opinion of management, these assets are appropriately valued at June 30, 2004; however, if we are unable to improve profitability in our Brazilian operations by growing revenue or achieving the necessary cost efficient structure in the future, this could have an impact on our opinion regarding the valuation of these assets, which could lead to an impairment charge against net income.

Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements that are based on current expectations, assumptions, estimates, and projections about our business and our industry. They are not guarantees of future performance and are subject to risks and uncertainties, many of which are outside of our control, that may cause actual results to differ significantly from what is expressed in those statements. Without limitation, statements in this Form 10-Q regarding the anticipated future benefits of our acquisitions, growth opportunities in the card processing industry, and our strategy for penetrating additional international markets are forward-looking statements. The factors that could, either individually or in the aggregate, affect our performance include the following, some of which are described in greater detail in the section entitled "Certain Factors Affecting Forward-Looking Statements" in our 2003 Annual Report on Form 10-K: our reliance on a small number of financial industries for the majority of our revenues; our reliance on key strategic relationships; the necessity to maintain qualifications set by bank card associations in order to continue to provide transaction processing services; potential liability when merchant customers cannot or do not reimburse us for charge-backs resolved in favor of cardholders, or when checks we guarantee are dishonored by the check writer's bank; potential loss of customers from continued consolidation in the financial services and in retail industries; changes in regulation or industry standards applicable to our businesses or those of our customers; the level of economic growth or other factors affecting demand for our products and services; ability to maintain or improve our competitive positions against current and potential competitors; database security and reliability of our information technology systems; risks associated with investments and operations in foreign countries, including exchange rate fluctuations and local political, social, and economic factors; the need to integrate acquired businesses; and those other risks listed in the above-referenced section of our Form 10-K.

Item 4. Controls and Procedures

An evaluation of the Company's disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), was carried out by the Company's management, with the participation of the chief executive and chief financial officers, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Company's chief executive and chief financial officers have concluded that such controls and procedures were effective as of the date of such evaluation. There were no changes in the Company's internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table provides information about purchases by the Company of its common stock during the three months ended June 30, 2004. All such purchases through May 13, 2004 were made pursuant to a repurchase plan publicly announced in August 2003 under which the Company was authorized by the Board to purchase up to \$100 million. On May 13, 2004, the Board approved \$100 million in new share repurchase authority, at which time the previous authority expired. Purchases made subsequent to May 13, 2004 were made pursuant to this new authority. All repurchases were made in open-market transactions.

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|----------------|----------------------------------|------------------------------|--|--|
| 4/1/04-4/30/04 | 489,500 | \$ 35.33 | 489,500 | \$ 232,268 |
| 5/1/04-5/31/04 | — | \$ — | — | \$ 100,000,000 |
| 6/1/04-6/30/04 | 4,700 | \$ 37.83 | 4,700 | \$ 99,822,208 |

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Item 4. Submission of Matters to a Vote of Security Holders

(a) On Thursday, May 13, 2004, the Company held its annual meeting of shareholders. As of March 15, 2004, the record date of the meeting, there were 64,052,899 shares issued, outstanding and entitled to vote at the annual meeting of shareholders. Represented at the meeting in person or by proxy were 57,019,177 shares of common stock, representing 89.02% of the shares of common stock outstanding as of March 15, 2004.

(b) Below is a brief description of each matter voted on at the annual meeting, each more fully described in the Company's definitive Proxy Statement, dated March 30, 2004:

(i) Election of three Class III directors to serve until the 2007 annual meeting of shareholders: David K. Hunt (54,217,669 votes "for" and 2,801,508 votes "withheld"); Phillip B. Lassiter (55,806,724 votes "for" and 1,212,453 votes "withheld"); and Kathy Brittain White (55,647,996 votes "for" and 1,371,181 votes "withheld").

The names of the other Directors whose terms of office as Directors continued after this meeting are as follows: Charles T. Doyle, Keith W. Hughes, Richard N. Child and Lee A. Kennedy.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

The following is a list of Exhibits included as part of this report, including those incorporated by reference. A list of those documents filed with this report is set forth on the Exhibit Index appearing elsewhere in this report and is incorporated by reference.

| <u>Exhibit No</u> | <u>Description</u> |
|-------------------|---|
| 10.21(a) | Amendment No. 1 to Certegy Inc. Stock Incentive Plan. (1) |
| 10.44 | Certegy Inc. Stock Incentive Plan Restricted Stock Unit Award Agreement dated June 18, 2004. (1) |
| 10.45 | Certegy Inc. Restricted Stock Units Deferral Election Agreement for 2004. (1) |
| 12.1 | Statements re Computation of Ratios. |
| 31.1 | Certification of Lee A. Kennedy, Chief Executive Officer of Certegy 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 Michael T. Vollkommer, Chief Financial Officer of Certegy 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 Certegy 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 Michael T. Vollkommer, Chief Financial Officer of Certegy Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

(1) Management Contract or Compensatory Plan.

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(b) Reports on Form 8-K:

During the second quarter of 2004, the Company filed the following reports on Form 8-K:

1. On April 2, 2004, the Registrant furnished to the Commission pursuant to Item 9 of Form 8-K its press release dated April 2, 2004, announcing a multi-year agreement for point-of-sale check warranty services with 7-Eleven and that it will no longer provide risk-decisioning services to 7-Eleven's Vcom[®] self-serve financial kiosks.

2. On April 21, 2004, the Registrant furnished to the Commission pursuant to Item 12 of Form 8-K its press release dated April 21, 2004, announcing the Company's financial results for the first quarter of 2004.

3. On May 14, 2004, the Registrant furnished to the Commission pursuant to Item 9 of Form 8-K its press release dated May 13, 2004, announcing the Board of Directors' approval of \$100 million in share repurchase authority and the declaration of a quarterly dividend of \$0.05 per common share, payable July 15, 2004, to shareholders of record as of July 1, 2004.

4. On May 14, 2004, the Registrant furnished to the Commission pursuant to Item 9 of Form 8-K its press release dated May 13, 2004, announcing the appointment of Larry J. Towe as President and Chief Operating Officer.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized officers.

Date: August 6, 2004

CERTEGY INC.

By: /s/ LEE A. KENNEDY

Lee A. Kennedy
Chairman and Chief Executive Officer
(Principal Executive Officer)

/s/ MICHAEL T. VOLLKOMMER

Michael T. Vollkommer
Corporate Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ PAMELA A. TEFFT

Pamela A. Tefft
Corporate Vice President and Controller
(Principal Accounting Officer)

INDEX TO EXHIBITS

The following documents are being filed with this report:

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(1) Management Contract or Compensatory Plan.

**AMENDMENT NO. 1
TO
CERTEGY INC. STOCK INCENTIVE PLAN**

THIS AMENDMENT is made as of this 18th day of June, 2004, by CERTEGY INC. (the "Company");

W I T N E S S E T H:

WHEREAS, the Company maintains the Certegy Inc. Stock Incentive Plan, as amended and restated as of February 28, 2002 (the "Plan"); and

WHEREAS, the Company now desires to amend the Plan to allow the grant of restricted stock units.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the Plan is hereby amended as follows:

1.

Section 2 of the Plan is hereby amended by adding the following new definition between the definitions of the terms "Restricted Shares" and "Rule 16b-3": "Restricted Stock Units" or "RSUs" means a right granted under Section 5 of the Plan to receive a number of Shares or a cash payment for each such Share equal to the Fair Market Value of a Share on a specified date."

2.

The definition of the term "Participant" in Section 2 of the Plan is amended by inserting ", Restricted Stock Units," after "Option Rights" and before "or Restricted Shares."

3.

Section 3(a) of the Plan is hereby amended by adding the term "or Restricted Stock Units" after the term "Restricted Shares."

4.

Section 3(c) of the Plan is hereby amended by inserting "or Restricted Stock Units" after the term "Restricted Shares" in both places it appears.

5.

The first sentence of Section 5 of the Plan is hereby amended by inserting “and Restricted Stock Units” after the term “Restricted Shares.”

6.

Section 5 the Plan is hereby amended by adding the following as a new subsection (h):

“(h) Restricted Stock Units (or RSUs). Awards of Restricted Stock Units may be made to Participants in accordance with the following terms and conditions:

(i) The Committee, in its discretion, shall determine and set forth in a written agreement the number of RSUs to grant to a Participant, the vesting period, and other terms and conditions of the award, including whether the award will be paid in cash, Common Shares or a combination of the two and the time when the award will be payable (*i.e.*, at vesting, termination of employment or another date).

(ii) Unless the agreement granting RSUs provides otherwise, RSUs shall not be sold, transferred or otherwise disposed of and shall not be pledged or otherwise hypothecated.

(iii) A Participant to whom RSUs are awarded has no rights as a shareholder with respect to the Common Shares represented by the RSUs unless and until the Common Shares are actually delivered to the Participant; provided, however, RSUs may have dividend equivalent rights if provided for by the Committee.

(iv) The agreement granting RSUs shall set forth the terms and conditions that shall apply upon the termination of the Participant’s employment with the Company (including a forfeiture of RSUs which have not vested upon Participant’s ceasing to be employed) as the Committee may, in its discretion, determine at the time the award is granted.

(v) Any grant of RSUs may specify Management Objectives that, if achieved, may result in vesting or earlier vesting of all or a portion of the RSUs.”

7.

The first paragraph of Section 6 and Section 6(b) of the Plan are hereby amended by adding “or Restricted Stock Units” after the term “Restricted Shares.”

8.

Section 13(c) of the Plan is hereby amended by adding “or Restricted Stock Units” after the term “Restricted Shares.”

9.

This Amendment No. 1 to the Plan shall be effective as of June ____, 2004. Except as hereby modified, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has executed this Amendment No. 1 as of the date first written above.

CERTEGY INC.

By: _____

**CERTEGY INC. STOCK INCENTIVE PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT**

Director: _____
Number of RSUs: **1,925**
Grant Date: **July 1, 2004**
Vesting Date: **June 30, 2005**

This Restricted Stock Unit Award Agreement (the "Agreement") is dated as of the 18th day of June, 2004, between Certegy Inc., a Georgia corporation (the "Company"), and the Director listed above (the "Director"). This Agreement is subject to the provisions of the Certegy Inc. Stock Incentive Plan, as amended and as may be further amended from time to time (the "Plan"), the terms of which are hereby incorporated by reference. Unless defined in this Agreement, all capitalized terms used but not defined in this Agreement shall have the same meanings given them in the Plan.

1. Grant of RSUs. Subject to the terms and conditions of this Agreement and the Plan, effective as of the date set forth above (the "Grant Date"), the Company hereby grants to the Director the number of Restricted Stock Units ("RSUs") set forth above. This award of RSUs represents the right to receive Common Shares subject to the fulfillment of the vesting conditions set forth in this Agreement.

2. Vesting. Subject to earlier vesting in accordance with Section 3 below, the RSUs shall vest on or after the date(s) (the "Vesting Date(s)") set forth at the beginning of this Agreement. The RSUs shall be nontransferable and, except as otherwise provided herein, shall be forfeited upon the Director's cessation of service as a director of the Company prior to the Vesting Date other than as a result of death or disability. The Committee that administers the Plan reserves the right, in its sole discretion, to waive or reduce the vesting requirements.

3. Death, Disability, or Change in Control. Section 2 to the contrary notwithstanding, in the event of the Director's death or resignation or removal as a director for reason of disability, as determined by the Committee, or if a Change in Control occurs, the Director's rights in the RSUs awarded pursuant to this Agreement will become nonforfeitable and transferable as of the date of the Director's death, resignation or removal for disability, or the date on which the Change in Control occurs.

4. Stock Certificates. Stock certificates evidencing the Common Shares subject to the RSUs shall be issued as of the Vesting Date and registered in the Director's name; provided, however, if the Director elects to defer delivery of the Common Shares as provided in Section 5 of this Agreement, the Common Shares shall be issued and delivered as set forth in the Deferral Election Agreement entered into between the Company and the Director.

5. Deferral Election. The Director may elect to defer delivery of the Common Shares that would otherwise be due by virtue of the lapse or waiver of the vesting requirements as set forth in Sections 2 or 3. The Committee shall, in its sole discretion, establish the rules and procedures for such deferral, and shall provide the Director with a Deferral Election Agreement.

6. Dividends. Until the Common Shares are issued to the Director, dividends will not be paid with respect to the RSUs, however, the number of RSUs granted to the Director will be adjusted from time to time to account for the payment of dividends, which adjustment in whole or fractional RSUs shall equal the value of all cash or stock dividends or other distributions that would have been paid on the Common Shares subject to the RSUs, except in circumstances where the dividend or distribution is covered by Sections 15 below.

7. Restriction and Transferability. Until the RSUs are vested and, subject to any valid deferral election, the Common Shares are delivered to the Director, the RSUs and the underlying Common Shares may not be sold, transferred, pledged, assigned, or otherwise alienated at any time. Any attempt to do so contrary to the provisions hereof shall be null and void.

8. Rights as Shareholder. Except as provided in Section 6, the Director shall not have voting or any other rights as a shareholder of the Company with respect to the RSUs. Upon settlement of the RSUs with issuance of Common Shares, the Director will obtain full voting and other rights as a shareholder of the Company.

9. Administration. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation, and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee shall be final and binding upon the Director, the Company, and all other interested persons. No member of the Committee shall be personally liable for any action, determination, or interpretation made in good faith with respect to the Plan or this Agreement.

10. No Rights to Continued Service on the Board. The award of the RSUs pursuant to this Agreement shall not give the Director any right to remain a member of the Board of Directors of the Company, nor shall it interfere with or restrict any right of the Company to remove the Director at any time.

11. Amendment. This Agreement may be amended only by a writing executed by the Company and the Director which specifically states that it is amending this Agreement. Notwithstanding the foregoing, this Agreement may be amended solely by the Committee by a writing that specifically states that it is amending this Agreement, so long as a copy of such amendment is delivered to the Director, and provided that no such amendment adversely affecting the rights of the Director hereunder may be made without the Director's written

consent. Without limiting the foregoing, the Committee reserves the right to change, by written notice to the Director, the provisions of the RSUs or this Agreement in any way it may deem necessary or advisable to carry out the purpose of the grant as a result of any change in applicable laws or regulations or any future law, regulation, ruling, or judicial decision, provided that any such change shall be applicable only to RSUs which are then subject to restrictions or deferral as provided herein.

12. Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary. Any notice to be given to the Director shall be addressed to the Director at the address listed in the Company's records. By a notice given pursuant to this Section, either party may designate a different address for notices. Any notice shall have been deemed given when actually delivered.

13. Severability. If all or any part of this Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of this Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Agreement (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

14. Construction. The restricted stock units are subject to the terms of the Plan. To the extent that any provision of this Agreement violates or is inconsistent with an express provision of the Plan, the Plan provision shall govern and any inconsistent provision in this Agreement shall be of no force or effect.

15. Adjustments to RSUs. The terms of this Agreement, including, when applicable, the number of RSUs, will be adjusted as the Committee determines necessary or appropriate to prevent dilution or enlargement of rights of the Director, in accordance with Section 8 of the Plan.

16. Fractional Shares. The Company shall not be required to issue fractional shares, and when any provision of this Agreement otherwise would entitle the Director to receive a fractional share, that fraction will be disregarded or paid in cash, as determined by the Committee.

17. Binding Effect. Except as limited by the Plan or this Agreement, this Agreement is binding on and extends to the legatees, and personal representatives of the Director and the successors of the Company.

18. Registration and Restrictions on Common Shares. The Company currently has an effective registration statement on file with the Securities and Exchange Commission with respect to the Common Shares subject to the RSUs. The Company intends to maintain this registration but has no obligation to do so. If the registration ceases to be effective, you will not be able to transfer or sell Common Shares issued to you pursuant to this RSU award unless exemptions from registration under applicable securities laws are available. Such exemptions

from registration are very limited and might be unavailable. You agree that any resale by you of the Common Shares issued pursuant to this RSU award shall comply in all respects with the requirements of all applicable securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act, the Exchange Act and the respective rules and regulations promulgated thereunder) and any other law, rule or regulation applicable thereto, as such laws, rules, and regulations may be amended from time to time. The Company shall not be obligated to either issue the Common Shares or permit the resale of any Common Shares if such issuance or resale would violate any such requirements or the requirements or regulations of any stock exchange upon which the Common Shares may then be listed.

19. Governing Law. This Agreement will be governed by and enforced in accordance with the laws of the State of Georgia.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement effective as of the day and year first above written.

Certegy Inc.

By: Richard D. Gapen

Name: Richard D. Gapen

Title: Corporate Vice President — HR

ACCEPTANCE AND ACKNOWLEDGEMENT

I, the above named Director, a resident of the State of _____, accept the Restricted Stock Unit award described in this Agreement and in the Plan, and acknowledge receipt of a copy of this Agreement, the Plan and the applicable Plan Summary, and acknowledge that I have read them carefully and that I fully understand their contents.

Director

CERTEGY INC.
RESTRICTED STOCK UNITS
DEFERRAL ELECTION AGREEMENT for 2004

Please complete this Agreement and return a signed copy to Certegy Inc., attention *Dick Gapen, CVP of HR, 11720 Amber Park Drive, Alpharetta, GA 30004* by **June 30, 2004**.

Name:

SS #:

- I **do not** wish to make a voluntary deferral related to my outstanding Restricted Stock Units that will vest on June 30, 2005, and I understand that the RSUs will be settled and the underlying Common Shares will be issued to me when the RSUs vest. *(If you check this box, do not complete the remainder of this Agreement — skip ahead to the end of this Agreement, date and sign, and return the Agreement as indicated above.)*
- I hereby **irrevocably elect** to defer receipt of the Common Shares related to my Restricted Stock Units that are scheduled to vest on June 30, 2005. This deferral shall be in accordance with the terms and provisions outlined in this Agreement in the manner and amount set forth below. This irrevocable election applies to 100% of the Restricted Stock Units that will vest on June 30, 2005. *(If you check this box, please complete all sections of this Agreement, date and sign, and return the Agreement as indicated above.)*

Settlement Date of Deferred RSUs (select one Settlement Date below)

I hereby **irrevocably elect** to defer receipt of the Common Shares associated with the above-referenced RSUs until the following date (or as soon thereafter as administratively practical):

- (1) The 5th anniversary of the date the RSUs vest (or if earlier, the date in (2) below).

OR

- (2) The date I cease to be a director of the Company, whether by reason of death, disability, resignation, removal or failure to be re-elected.

If no Settlement Date is specified, then the transfer will occur upon the date the RSUs vest.

Manner of Transfer

All deferrals to a particular Settlement Date will be paid out in Common Shares. **All** of the Common Shares you are entitled to receive on the Settlement Date specified in this Deferral Election Agreement will be transferred to you on such Settlement Date.

Terms and Conditions

By signing this form, you hereby acknowledge your understanding and acceptance of the following:

- **Nonassignable.** Your rights and interests under this Deferral Election Agreement may not be assigned, pledged, or transferred other than as provided in the Certegy Inc. Stock Incentive Plan (the "Plan").
- **Termination of this Agreement.** The Company reserves the right to terminate this Agreement at any time. In such case, RSUs that are subject to the Deferral Election Agreement may be converted into Shares and such Shares may be transferred to you immediately or, if later, upon vesting.
- **Bookkeeping Account.** The Company will establish a bookkeeping account to reflect the number of RSUs and the fair market value of the RSUs that are subject to this Deferral Election Agreement. You understand that the Company's obligation to deliver the Shares on the Settlement Date is an unsecured obligation of the Company.
- **Stock Certificates.** Stock certificates evidencing the payment of the RSUs in Common Shares shall be issued as of the applicable Settlement Date (or such earlier date payment is to be made pursuant to this deferral Election Agreement) and registered in your name. Subject to any applicable withholding requirements, certificates representing the unrestricted Common Shares will be delivered to you as soon as practicable after the Settlement Date.
- **Defined Terms.** All capitalized terms not defined in this Election Agreement are defined in the Plan or Restricted Stock Unit Award Agreement.

By executing this Deferral Election Agreement, I hereby acknowledge my understanding of and agreement with all the provisions set forth in this Deferral Election Agreement, the Plan, and the Restricted Stock Unit Award Agreement.

Accepted by:

DIRECTOR

CERTEGY INC.

Signature:

By:

Date:

Date:

TO BE EFFECTIVE, THIS FORM MUST BE RETURNED BY JUNE 30, 2004

CERTEGY INC.
RATIO OF EARNINGS TO FIXED CHARGES
(\$ in thousands, except ratio data)

| | For the year ended December 31, | | | | | Six months ended June 30, |
|---|---------------------------------|-------------------|-------------------|-------------------|-------------------|------------------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| Earnings: | | | | | | |
| Income before income taxes (1) | \$ 128,901 | \$ 146,071 | \$ 143,352 | \$ 145,948 | \$ 148,789 | \$ 72,372 |
| Add: | | | | | | |
| Interest expense | 901 | 1,301 | 7,200 | 7,120 | 7,950 | 6,129 |
| Other adjustments | 5,323 | 5,603 | 5,080 | 4,564 | 4,662 | 2,376 |
| Total earnings | \$ 135,125 | \$ 152,975 | \$ 155,632 | \$ 157,632 | \$ 161,401 | \$ 80,877 |
| Fixed charges: | | | | | | |
| Interest expense | \$ 901 | \$ 1,301 | \$ 7,200 | \$ 7,120 | \$ 7,950 | \$ 6,129 |
| Other adjustments | 5,323 | 5,603 | 5,080 | 4,564 | 4,662 | 2,376 |
| Total fixed charges | \$ 6,224 | \$ 6,904 | \$ 12,280 | \$ 11,684 | \$ 12,612 | \$ 8,505 |
| Ratio of earnings to fixed charges | 21.71x | 22.16x | 12.67x | 13.49x | 12.80x | 9.51x |

(1) Income before income taxes and cumulative effect of a change in accounting principle, but including minority interests.

For the purposes of calculating the ratio of earnings to fixed charges, fixed charges consist of interest on indebtedness, amortization of deferred financing costs, and an estimated amount of rental expense that is deemed to be representative of the interest factor.

CERTIFICATION PURSUANT TO RULE 13A-14(A) OR 15D-14(A) OF THE EXCHANGE ACT

I, Lee A. Kennedy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Certegy 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)) 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) 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
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the 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 6, 2004

/s/ LEE A. KENNEDY

Lee A. Kennedy
Chairman and Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13A-14(A) OR 15D-14(A) OF THE EXCHANGE ACT

I, Michael T. Vollkommer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Certegy 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)) 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) 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
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the 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 6, 2004

/s/ MICHAEL T. VOLLKOMMER

Michael T. Vollkommer
*Corporate Vice President and Chief
Financial Officer*

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

The undersigned certifies, pursuant to 18 U.S.C. Section 1350 as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Quarterly Report on Form 10-Q of Certegy Inc. (the "Company") for the quarterly period ended June 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 6, 2004

/s/ LEE A. KENNEDY

Lee A. Kennedy
Chairman and Chief
Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

The undersigned certifies, pursuant to 18 U.S.C. Section 1350 as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Quarterly Report on Form 10-Q of Certegy Inc. (the "Company") for the quarterly period ended June 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 6, 2004

/s/ MICHAEL T. VOLLKOMMER

Michael T. Vollkommer
Corporate Vice President and Chief
Financial Officer