

FISERV INC
Form 10-Q
August 02, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2017

OR

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

For the transition period from _____ to _____
Commission File Number 0-14948

FISERV, INC.
(Exact Name of Registrant as Specified in Its Charter)

WISCONSIN 39-1506125
(State or Other Jurisdiction of (I. R. S. Employer
Incorporation or Organization) Identification No.)
255 FISERV DRIVE, BROOKFIELD, WI 53045
(Address of Principal Executive Offices) (Zip Code)
(262) 879-5000
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

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Exchange Act.

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

As of July 28, 2017, there were 210,465,540 shares of common stock, \$.01 par value, of the registrant outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Fiserv, Inc.

Consolidated Statements of Income

(In millions, except per share data)

(Unaudited)

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
Revenue:				
Processing and services	\$1,186	\$1,159	\$2,364	\$2,281
Product	200	204	416	413
Total revenue	1,386	1,363	2,780	2,694
Expenses:				
Cost of processing and services	573	547	1,143	1,100
Cost of product	175	180	357	361
Selling, general and administrative	276	274	553	532
Gain on sale of business	(10)	—	(10)	—
Total expenses	1,014	1,001	2,043	1,993
Operating income	372	362	737	701
Interest expense	(44)	(40)	(86)	(80)
Interest and investment income (loss), net	2	—	2	(7)
Income before income taxes and income from investment in unconsolidated affiliate	330	322	653	614
Income tax provision	(109)	(110)	(211)	(259)
Income from investment in unconsolidated affiliate	—	—	26	146
Net income	\$221	\$212	\$468	\$501
Net income per share – basic	\$1.05	\$0.95	\$2.20	\$2.25
Net income per share – diluted	\$1.02	\$0.94	\$2.15	\$2.21
Shares used in computing net income per share:				
Basic	211.8	222.0	213.2	222.8
Diluted	216.3	225.6	217.8	226.5
See accompanying notes to consolidated financial statements.				

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Fiserv, Inc.

Consolidated Statements of Comprehensive Income

(In millions)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$221	\$212	\$468	\$501
Other comprehensive income (loss):				
Fair market value adjustment on cash flow hedges, net of income tax provision of \$1 million and \$2 million	1	—	3	—
Reclassification adjustment for net realized losses on cash flow hedges included in interest expense, net of income tax provision of \$1 million, \$1 million, \$2 million and \$2 million	1	1	3	3
Foreign currency translation	6	(6)	11	(3)
Total other comprehensive income (loss)	8	(5)	17	—
Comprehensive income	\$229	\$207	\$485	\$501
See accompanying notes to consolidated financial statements.				

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Fiserv, Inc.

Consolidated Balance Sheets

(In millions)

(Unaudited)

	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	\$299	\$ 300
Trade accounts receivable, net	845	902
Prepaid expenses and other current assets	488	526
Total current assets	1,632	1,728
Property and equipment, net	396	405
Intangible assets, net	1,807	1,833
Goodwill	5,435	5,373
Other long-term assets	415	404
Total assets	\$9,685	\$ 9,743
Liabilities and Shareholders' Equity		
Accounts payable and accrued expenses	\$1,148	\$ 1,242
Current maturities of long-term debt	95	95
Deferred revenue	464	483
Total current liabilities	1,707	1,820
Long-term debt	4,646	4,467
Deferred income taxes	773	762
Other long-term liabilities	168	153
Total liabilities	7,294	7,202
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value: 25.0 million shares authorized; none issued	—	—
Common stock, \$0.01 par value: 900.0 million shares authorized; 395.7 million shares issued	4	4
Additional paid-in capital	1,017	1,020
Accumulated other comprehensive loss	(59)	(76)
Retained earnings	9,462	8,994
Treasury stock, at cost, 184.9 million and 180.2 million shares	(8,033)	(7,401)
Total shareholders' equity	2,391	2,541
Total liabilities and shareholders' equity	\$9,685	\$ 9,743
See accompanying notes to consolidated financial statements.		

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Fiserv, Inc.

Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Six Months Ended June 30, 2017 2016	
Cash flows from operating activities:		
Net income	\$468	\$501
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and other amortization	137	122
Amortization of acquisition-related intangible assets	78	80
Share-based compensation	33	39
Excess tax benefits from share-based awards	—	(37)
Deferred income taxes	—	5
Income from investment in unconsolidated affiliate	(26)	(146)
Dividends from unconsolidated affiliate	31	140
Non-cash impairment charges	10	17
Gain on sale of business	(10)	—
Other operating activities	(1)	(2)
Changes in assets and liabilities, net of effects from acquisitions:		
Trade accounts receivable	59	3
Prepaid expenses and other assets	(21)	(38)
Accounts payable and other liabilities	(47)	37
Deferred revenue	(20)	(34)
Net cash provided by operating activities	691	687
Cash flows from investing activities:		
Capital expenditures, including capitalization of software costs	(136)	(145)
Payments for acquisitions of businesses, net of cash acquired	(78)	(265)
Proceeds from sale of business	19	—
Other investing activities	1	2
Net cash used in investing activities	(194)	(408)
Cash flows from financing activities:		
Debt proceeds	1,173	1,249
Debt repayments	(1,005)	(991)
Proceeds from issuance of treasury stock	47	47
Purchases of treasury stock, including employee shares withheld for tax obligations	(713)	(633)
Excess tax benefits from share-based awards	—	37
Net cash used in financing activities	(498)	(291)
Net change in cash and cash equivalents	(1)	(12)
Cash and cash equivalents, beginning balance	300	275
Cash and cash equivalents, ending balance	\$299	\$263
See accompanying notes to consolidated financial statements.		

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Fiserv, Inc.

Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The consolidated financial statements for the three-month and six-month periods ended June 30, 2017 and 2016 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial statements have been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year. The consolidated financial statements and accompanying notes are presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and accompanying notes of Fiserv, Inc. (the “Company”). These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

Principles of Consolidation

The consolidated financial statements include the accounts of Fiserv, Inc. and all 100% owned subsidiaries. Investments in less than 50% owned affiliates in which the Company has significant influence but not control are accounted for using the equity method of accounting. All intercompany transactions and balances have been eliminated in consolidation.

2. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”), which eliminates Step 2 of the goodwill impairment test that had required a hypothetical purchase price allocation. Rather, entities should apply the same impairment assessment to all reporting units and recognize an impairment loss for the amount by which a reporting unit's carrying amount exceeds its fair value, without exceeding the total amount of goodwill allocated to that reporting unit. Entities will continue to have the option to perform a qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 will be effective prospectively for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, or those beginning after January 1, 2017 if early adopted. The Company early adopted ASU 2017-04 in the first quarter of 2017. The adoption of this ASU did not have any impact on the Company’s consolidated financial statements and is not expected to have a material impact on its consolidated financial statements going forward.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (“ASU 2017-01”), which clarifies the definition of a business with the objective of adding guidance and providing a more robust framework to assist reporting organizations with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. For public entities, ASU 2017-01 is effective prospectively for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted for transactions occurring before the issuance or effective date of the standard for which financial statements have not yet been issued. The Company early adopted ASU 2017-01 in the first quarter of 2017, and the adoption did not have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which adds or clarifies guidance on the presentation and classification of eight specific types of cash receipts and cash payments in the statement of cash flows, with the intent of reducing diversity in practice. For public entities, ASU 2016-15 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. Entities must apply the guidance retrospectively to all periods presented unless retrospective application is impracticable. The Company early adopted ASU 2016-15 in the first quarter of 2017, and the adoption did not have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which simplifies several aspects of the accounting for

share-based payment awards, including the accounting for income taxes and forfeitures, as well as classification in the statement of cash flows. The standard requires that all tax effects related to share-based payments be recorded as income tax expense or benefit in the income statement at settlement or expiration and, accordingly, excess tax benefits and tax deficiencies be presented as operating activities in the statement of cash flows. For public entities, ASU 2016-09 was effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. The recognition of all

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excess tax benefits and tax deficiencies in the income statement, as well as related changes to the computation of diluted earnings per share, is to be applied prospectively. The impact of this standard on the Company's consolidated financial statements depends on the intrinsic value of share-based compensation awards at the time of exercise or vesting, may result in more variability in effective tax rates and net earnings, and may impact the dilution of common stock equivalents. The Company adopted ASU 2016-09 effective January 1, 2017. As a result of this adoption, the Company recorded excess tax benefits related to share-based compensation awards of \$6 million and \$31 million during the three and six months ended June 30, 2017, respectively, in the income tax provision, whereas such benefits were previously recognized in equity. The Company elected to apply the change in presentation in the statement of cash flows prospectively, and as a result, excess tax benefits are classified as operating activities when realized through reductions to subsequent tax payments. The treatment of forfeitures did not change as the Company elected to continue its current practice of estimating expected forfeitures.

Recently Issued Accounting Pronouncements

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting ("ASU 2017-09"), which provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. Under ASU 2017-09, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the award are the same immediately before and after the award is modified. ASU 2017-09 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted in any interim period. Entities must apply the standard prospectively. The Company is currently assessing the impact that the adoption of ASU 2017-09 will have on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"), which eliminates the current prohibition on immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory, with the intent of reducing complexity and diversity in practice. Under ASU 2016-16, entities must recognize the income tax consequences when the transfer occurs rather than deferring recognition. For public entities, ASU 2016-16 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted as of the beginning of a fiscal year. Entities must apply the guidance on a modified retrospective basis though a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company does not expect the adoption of ASU 2016-16 to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) ("ASU 2016-13"), which prescribes an impairment model for most financial assets based on expected losses rather than incurred losses. Under this model, an estimate of expected credit losses over the contractual life of the instrument is to be recorded as of the end of a reporting period as an allowance to offset the amortized cost basis, resulting in a net presentation of the amount expected to be collected on the financial asset. For public entities, ASU 2016-13 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For most instruments, entities must apply the standard using a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact that the adoption of ASU 2016-13 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which requires lessees to recognize a lease liability and a right-of-use asset for each lease with a term longer than twelve months. The recognized liability is measured at the present value of lease payments not yet paid, and the corresponding asset represents the lessee's right to use the underlying asset over the lease term and is based on the liability, subject to certain adjustments. For income statement purposes, the standard retains the dual model with leases classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. For public entities, ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The standard requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the

financial statements. The Company is currently assessing the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements of financial instruments. For public entities, ASU 2016-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted for certain provisions of the standard. Entities must apply the standard, with certain exceptions, using a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact that the adoption of ASU 2016-01 will have on its consolidated financial statements.

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In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), to clarify the principles of recognizing revenue and to create common revenue recognition guidance between U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This model involves a five-step process for achieving that core principle, along with comprehensive disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, to defer the effective date of the new revenue standard for one year and permit early adoption as of the original effective date in ASU 2014-09. For public entities, the new revenue standard is effective for annual and interim periods beginning after December 15, 2017. The Company plans to adopt ASU 2014-09 on January 1, 2018.

The Company has reviewed the requirements of the new revenue standard and related ASUs and is monitoring the activity of the FASB and the transition resource group as it relates to specific interpretive guidance. The Company is reviewing customer contracts and is in the process of applying the five-step model of the new revenue standard to each of its key identified revenue streams included within either processing and services revenue or product revenue and is comparing the results to its current accounting practices. While the Company continues to assess all potential impacts of adopting this new revenue standard on its consolidated financial statements, related disclosures, and necessary control and process changes, it currently believes the new revenue standard will not have a significant impact on the accounting for stand-ready account- and transaction-based processing fees, the Company’s most significant revenue stream. Areas that the Company currently expects will be impacted by the new revenue standard include the accounting for costs to obtain a contract, such as the capitalization of commissions for sales personnel, which are currently expensed as incurred; the timing of revenue recognition of certain termination fees over the modified contract term, which will generally result in an acceleration of revenue as compared to the Company’s current accounting practice of recognition upon client deconversion; the deferral of professional services revenue from certain transaction processing platform enhancements that are currently recognized as performed; and the expanded qualitative and quantitative disclosures required under the new standard.

Entities have the option of adopting this new guidance using either a full retrospective or a modified approach with the cumulative effect of applying the guidance recognized at the date of initial application. The Company currently anticipates adopting the new standard using the modified retrospective transition approach, which will result in a cumulative effect adjustment to retained earnings as of January 1, 2018. However, a final decision regarding the adoption method is dependent on several factors, including the completion of the Company’s analysis of the effect the adoption of the new standard will have on its results of operations, financial position and related disclosures.

3. Fair Value Measurements

The Company applies fair value accounting for all assets and liabilities that are recognized or disclosed at fair value in its consolidated financial statements on a recurring basis. Fair value represents the amount that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability.

The fair values of cash equivalents, trade accounts receivable, settlement assets and obligations, accounts payable, and client deposits approximate their respective carrying values due to the short period of time to maturity. The estimated fair value of total debt was \$4.9 billion at June 30, 2017 and \$4.7 billion at December 31, 2016, and was based on quoted prices in active markets for the Company’s senior notes (level 1 of the fair value hierarchy) and discounted cash flows based on the Company’s current incremental borrowing rate for its term loan (level 3 of the fair value hierarchy). The fair value of the Company’s revolving credit facility borrowings approximates carrying value as the underlying interest rate is variable based on LIBOR. The estimated fair value of the contingent consideration liability of \$15 million at June 30, 2017 (see Note 4) was based on the present value of a probability-weighted assessment approach

derived from the likelihood of achieving the various earn-out criteria (level 3 of the fair value hierarchy). This estimated fair value has not changed since the acquisition date.

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4. Acquisitions and Dispositions

Acquisitions

On January 17, 2017, the Company completed its acquisition of Online Banking Solutions, Inc. (“OBS”), gaining additional cash management and digital business banking capabilities that complement and enrich the Company’s existing solutions, for a purchase price of \$78 million, net of cash acquired, along with earn-out provisions estimated at a fair value of \$15 million. OBS products are integrated across a number of the Company’s account processing solutions and with other core processing platforms, and should enable its bank and credit union clients to better serve their commercial customers.

During the second quarter of 2017, the Company finalized the purchase price allocation for this acquisition based upon a final valuation of intangible assets. The final purchase price allocation did not materially change from the preliminary allocation and resulted in technology and customer intangible assets totaling \$30 million, goodwill of \$62 million and other identifiable net assets of \$1 million consisting primarily of accounts receivable. The goodwill, recognized within the Financial Institution Services (“Financial”) segment, from this transaction is deductible for tax purposes and is primarily attributed to synergies and anticipated revenue and earnings growth associated with the products and services that this business provides. The results of operations for OBS have been included in the accompanying consolidated statements of income from the acquisition date. Pro forma information is not provided because the acquisition did not have a material effect on the Company’s consolidated results of operations.

In June 2017, the Company made a recommended cash offer to acquire Monitise plc (“Monitise”) for approximately £70 million (\$89 million). The transaction is subject to certain conditions including Monitise shareholder approval. In connection with this pending acquisition, the Company entered into a forward currency contract to hedge its net exposure to the British pound. As of June 30, 2017, the notional amount of this forward currency contract approximated \$69 million, with a fair value of approximately \$1 million recorded to earnings in the consolidated statements of income and prepaid expenses and other current assets in the consolidated balance sheet.

Disposition

On May 11, 2017, the Company sold its Australian item processing business, which was reported within the Financial segment, for approximately \$17 million, consisting of \$19 million in cash received at closing less an estimated closing adjustment of \$2 million anticipated to be finalized in the third quarter of 2017. The Company recognized a gain on the sale of \$10 million, with the related tax expense of \$5 million recorded through the income tax provision, in the consolidated statements of income for the three and six months ended June 30, 2017.

5. Investment in Unconsolidated Affiliate

The Company owns a 49% interest in StoneRiver Group, L.P. (“StoneRiver”), which is accounted for as an equity method investment, and reports its share of StoneRiver’s net income as income from investment in unconsolidated affiliate. During the first quarter of 2017, StoneRiver recognized a gain on the sale of a business. The Company’s \$26 million pre-tax share of the gain was recorded within income from investment in unconsolidated affiliate, with the related tax expense of \$9 million recorded through the income tax provision, in the consolidated statements of income. During the first quarter of 2017, the Company received cash dividends of \$31 million from StoneRiver, which were funded from the sale transaction and recorded as reductions in the Company’s investment in StoneRiver.

During the first quarter of 2016, StoneRiver recognized a gain on the sale of a business interest in which the Company’s pre-tax share of this gain was \$190 million. During the first quarter of 2016, the Company also received cash dividends of \$140 million from StoneRiver, which were funded from the sale transaction and recorded as reductions in the Company’s investment in StoneRiver. In conjunction with this activity, the Company evaluated its equity method investment in StoneRiver for its ability to recover the remaining carrying amount of such investment. Utilizing a discounted cash flow analysis (level 3 of the fair value hierarchy) to arrive at a measure of the investment’s fair value, the Company recognized an impairment loss of \$44 million. The Company’s \$146 million pre-tax share of the gain, net of the impairment loss, was recorded within income from investment in unconsolidated affiliate, with the related tax expense of \$54 million recorded through the income tax provision, in the consolidated statements of income.

The Company’s investment in StoneRiver was \$9 million and \$14 million at June 30, 2017 and December 31, 2016, respectively, and is reported within other long-term assets in the consolidated balance sheets. The dividends, in their

entirety, represented returns on the Company's investment and are reported in cash flows from operating activities.

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6. Share-Based Compensation

The Company recognized \$17 million and \$33 million of share-based compensation expense during the three and six months ended June 30, 2017, respectively, and \$17 million and \$39 million of share-based compensation expense during the three and six months ended June 30, 2016, respectively. The Company's annual grant of share-based awards generally occurs in the first quarter. During the six months ended June 30, 2017 and 2016, stock options to purchase 0.9 million and 1.3 million shares, respectively, were exercised.

A summary of stock option, restricted stock unit and performance share unit grant activity is as follows:

	Six Months Ended			
	June 30, 2017		2016	
	Shares	Weighted-Average	Shares	Weighted-Average
	Granted	Grant Date Fair	Granted	Grant Date Fair
	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Stock options	667	\$ 37.27	931	\$ 31.42
Restricted stock units	273	114.07	340	97.01
Performance share units	55	113.82	150	100.68

7. Shares Used in Computing Net Income Per Share

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

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Weighted-average common shares outstanding used for the calculation of net income per share – basic	211.8	222.0	213.2	222.8
Common stock equivalents	4.5	3.6	4.6	3.7
Weighted-average common shares outstanding used for the calculation of net income per share – diluted	216.3	225.6	217.8	226.5

For the three months ended June 30, 2017 and 2016, stock options for 0.8 million and 0.9 million shares, respectively, were excluded from the calculation of diluted weighted-average outstanding shares because their impact was anti-dilutive. For both the six months ended June 30, 2017 and 2016, stock options for 0.7 million shares were excluded from the calculation of diluted weighted-average outstanding shares because their impact was anti-dilutive.

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8. Intangible Assets

Intangible assets consisted of the following:

(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
June 30, 2017			
Customer related intangible assets	\$ 2,213	\$ 1,105	\$ 1,108
Acquired software and technology	525	445	80
Trade names	117	61	56
Capitalized software development costs	702	265	437
Purchased software	230	104	126
Total	\$ 3,787	\$ 1,980	\$ 1,807
(In millions)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
December 31, 2016			
Customer related intangible assets	\$ 2,200	\$ 1,043	\$ 1,157
Acquired software and technology	507	432	75
Trade names	117	57	60
Capitalized software development costs	641	233	408
Purchased software	230	97	133
Total	\$ 3,695	\$ 1,862	\$ 1,833

The Company estimates that annual amortization expense with respect to acquired intangible assets recorded at June 30, 2017, which include customer related intangible assets, acquired software and technology, and trade names, will be approximately \$150 million in each of 2017 and 2018, \$140 million in 2019, \$120 million in 2020, and \$110 million in 2021. Annual amortization expense in 2017 with respect to capitalized and purchased software recorded is estimated to approximate \$150 million.

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

(In millions)	June 30, December 31,	
	2017	2016
Trade accounts payable	\$ 85	\$ 110
Client deposits	447	409
Settlement obligations	253	305
Accrued compensation and benefits	134	184
Other accrued expenses	229	234
Total	\$ 1,148	\$ 1,242

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10. Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss by component, net of income taxes, consisted of the following:

(In millions)	Cash Flow Hedges	Foreign Currency Translation	Other	Total
Balance at December 31, 2016	\$ (24)	\$ (50)	\$ (2)	\$ (76)
Other comprehensive income before reclassifications	3	11	—	14
Amounts reclassified from accumulated other comprehensive loss	3	—	—	3
Net current-period other comprehensive income	6	11	—	17
Balance at June 30, 2017	\$ (18)	\$ (39)	\$ (2)	\$ (59)

(In millions)	Cash Flow Hedges	Foreign Currency Translation	Other	Total
Balance at December 31, 2015	\$ (31)	\$ (41)	\$ (2)	\$ (74)
Other comprehensive loss before reclassifications	—	(3)	—	(3)
Amounts reclassified from accumulated other comprehensive loss	3	—	—	3
Net current-period other comprehensive income (loss)	3	(3)	—	—
Balance at June 30, 2016	\$ (28)	\$ (44)	\$ (2)	\$ (74)

Based on the amounts recorded in accumulated other comprehensive loss at June 30, 2017, the Company estimates that it will recognize approximately \$7 million in interest expense during the next twelve months related to settled interest rate hedge contracts.

The Company has entered into foreign currency forward exchange contracts, which have been designated as cash flow hedges, to hedge foreign currency exposure to the Indian Rupee. As of June 30, 2017 and December 31, 2016, the notional amount of these derivatives was approximately \$163 million and \$86 million, respectively, and the fair value totaling approximately \$6 million and \$1 million, respectively, is reported in prepaid expenses and other current assets in the consolidated balance sheet.

11. Cash Flow Information

Supplemental cash flow information was as follows:

(In millions)	Six Months Ended June 30, 2017	2016
Interest paid	\$77	\$ 72
Income taxes paid	206	203
Treasury stock purchases settled after the balance sheet date	13	