SUNGARD DATA SYSTEMS INC
Form 10-Q
May 12, 2006
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United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2006

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 1-12989

SunGard® Data Systems Inc.

(Exact name of registrant as specified in its charter)

Delaware	**51-0267091**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

680 East Swedesford Road, Wayne, Pennsylvania 19087

(Address of principal executive offices, including zip code)

484-582-2000

(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 x

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

Large accelerated filer ¨. Accelerated filer ¨. Non-accelerated filer x.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨. No x.

There were 100 shares of the registrant s common stock outstanding as of March 31, 2006.

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SunGard Data Systems Inc.

And Subsidiaries

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SunGard Data Systems Inc.

Consolidated Balance Sheets

(In millions except share and per-share amounts)

	Successor December 31, 2005	March 31, 2006 (unaudited)
Assets		
Current:		
Cash and cash equivalents	$ 317	**$ 286**
Trade receivables, less allowance for doubtful accounts of $9 and $10	190	**170**
Earned but unbilled receivables	38	**39**
Prepaid expenses and other current assets	166	**156**
Clearing broker assets	391	**416**
Retained interest in accounts receivable sold	224	**248**
Deferred income taxes	40	**42**
Total current assets	1,366	**1,357**
Property and equipment, less accumulated depreciation of $72 and $128	705	**721**
Software products, less accumulated amortization of $83 and $136	1,528	**1,490**
Customer base, less accumulated amortization of $68 and $113	2,817	**2,781**
Other tangible and intangible assets, less accumulated amortization of $3 and $5	248	**260**
Trade name	1,019	**1,019**
Goodwill	6,904	**6,908**
Total Assets	$ 14,587	**$ 14,536**
Liabilities and Stockholder s Equity		
Current:		
Short-term and current portion of long-term debt	$ 46	**$ 45**
Accounts payable	67	**65**
Accrued compensation and benefits	218	**140**
Accrued interest expense	161	**82**
Other accrued expenses	282	**266**
Clearing broker liabilities	360	**389**
Deferred revenue	695	**718**
Total current liabilities	1,829	**1,705**
Long-term debt	7,383	**7,507**
Deferred income taxes	1,803	**1,778**
Total liabilities	11,015	**10,990**
Commitments and contingencies		
Stockholder s equity:		
Common stock, par value $.01 per share; 100 shares authorized, issued and outstanding		
Capital in excess of par value	3,629	**3,636**
Accumulated deficit	(29)	**(75)**
Accumulated other comprehensive loss	(28)	**(15)**
Total stockholder s equity	3,572	**3,546**

Total Liabilities and Stockholder s Equity	$ 14,587	**$ 14,536**

The accompanying notes are an integral part of these financial statements.

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SunGard Data Systems Inc.

Consolidated Statements of Operations

(In millions)

(Unaudited)

	Predecessor Three Months Ended March 31, 2005	Successor Three Months Ended March 31, 2006
Revenue:		
Services	$ 840	**$ 923**
License and resale fees	82	**53**
Total products and services	922	**976**
Reimbursed expenses	25	**27**
	947	**1,003**
Costs and expenses:		
Cost of sales and direct operating	443	**472**
Sales, marketing and administration	194	**223**
Product development	60	**64**
Depreciation and amortization	56	**57**
Amortization of acquisition-related intangible assets	34	**96**
Merger costs	4	**2**
	791	**914**
Income from operations	156	**89**
Interest income	3	**3**
Interest expense	(7)	**(157)**
Other income (expense)		**(12)**
Income (loss) before income taxes	152	**(77)**
Provision (benefit) for income taxes	62	**(31)**
Net income (loss)	$ 90	**$ (46)**

The accompanying notes are an integral part of these financial statements.

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SunGard Data Systems Inc.

Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Predecessor Three Months Ended March 31, 2005	Successor Three Months Ended March 31, 2006
Cash flow from operations:		
Net income (loss)	$ 90	**$ (46)**
Reconciliation of net income (loss) to cash flow from operations:		
Depreciation and amortization	90	**153**
Deferred income tax provision (benefit)	(2)	**(29)**
Stock compensation expense		**8**
Amortization of deferred financing costs and debt discount		**8**
Other noncash credits	(6)	**(9)**
Accounts receivable and other current assets	(27)	**13**
Accounts payable and accrued expenses	4	**(178)**
Clearing broker assets and liabilities, net	(4)	**4**
Deferred revenue	26	**23**
Cash flow from operations	171	**(53)**
Investment activities:		
Cash paid for businesses acquired by the Company, net of cash acquired	(386)	**(8)**
Cash paid for property and equipment and software	(56)	**(78)**
Other investing activities	1	**(5)**
Cash used in investment activities	(441)	**(91)**
Financing activities:		
Cash received from other borrowings, net of fees	75	**292**
Cash used to repay debt	(115)	**(179)**
Cash received from stock option and award plans	39	
Cash provided by (used in) financing activities	(1)	**113**
Decrease in cash and cash equivalents	(271)	**(31)**
Beginning cash and cash equivalents	675	**317**
Ending cash and cash equivalents	$ 404	**$ 286**
Supplemental information:		

Acquired businesses:		
Property and equipment	$ 66	**$**
Software products	43	**3**
Customer base	164	**6**
Goodwill	204	**2**
Other tangible and intangible assets	3	
Deferred income taxes	(55)	
Purchase price obligations and debt assumed	(16)	**(4)**
Net current (liabilities) assets assumed	(23)	**1**
Cash paid for acquired businesses, net of cash acquired of $31 and $0, respectively	$ 386	**$ 8**

The accompanying notes are an integral part of these financial statements.

SUNGARD DATA SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation:

SunGard Data Systems Inc. (SunGard) was acquired on August 11, 2005 (the Transaction) by a consortium of private equity investment funds associated with Bain Capital Partners, The Blackstone Group, Goldman Sachs & Co., Kohlberg Kravis Roberts & Co., Providence Equity Partners, Silver Lake Partners and Texas Pacific Group (collectively, the Sponsors). The Transaction was accomplished through the merger of Solar Capital Corp. into SunGard with SunGard being the surviving company.

SunGard is a wholly owned subsidiary of SunGard Holdco LLC, which is wholly owned by SunGard Holding Corp., which is wholly owned by SunGard Capital Corp. II, which is wholly owned by SunGard Capital Corp. All four of these companies were formed for the purpose of facilitating the Transaction and are collectively referred to as the Holding Companies.

Although SunGard continued as the same legal entity after the Transaction, the accompanying consolidated statements of operations, cash flows and stockholder s equity are presented for two periods: Predecessor and Successor, which relate to the period preceding the Transaction and the period succeeding the Transaction, respectively. The Company refers to the operations of SunGard and subsidiaries for both the Predecessor and Successor periods.

SunGard has three segments: Financial Systems (FS), Higher Education and Public Sector Systems (HEPS) and Availability Services (AS). The Company s Software & Processing Solutions business is comprised of the FS and HEPS segments. The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated. The consolidated financial statements exclude the accounts of the Holding Companies.

The accompanying interim consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), consistent in all material respects with those applied in the Successor s Annual Report on Form 10-K for the year ended December 31, 2005. Interim financial reporting does not include all of the information and footnotes required by GAAP for complete financial statements. The interim financial information is unaudited, but reflects all normal adjustments which are, in the opinion of management, necessary to provide a fair statement of results for the interim periods presented. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

2. Acquisitions and Dispositions

Acquisition of SunGard

As discussed in Note 1, the Transaction was completed on August 11, 2005 and was financed by a combination of borrowings under the Company s new senior secured credit facilities, the issuance of senior notes due 2013 and senior subordinated notes due 2015, the funding under the Company s new receivables facilities, and the equity investment of the Sponsors, co-investors and management.

The purchase price, including transaction costs that have been allocated as debt issuance costs or included in the overall purchase price, was approximately $11.73 billion. Under business combination accounting, the total purchase price was allocated to the Company s net tangible and identifiable intangible assets based on their estimated fair values as of August 11, 2005. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill. The preliminary allocation of the purchase price for property and equipment, intangible assets and deferred income taxes was based upon preliminary valuation data and our estimates and assumptions are subject to change.

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Acquisitions by the Company

The Company seeks to acquire businesses that broaden its existing product lines and service offerings by adding complementary products and service offerings and by expanding its geographic reach. On March 14, 2006, the Company completed the acquisition of Dataware Solutions, Inc. (Dataware) for $8 million. Dataware specializes in employee compliance solutions for financial institutions and is part of the Company s FS segment.

3. Stock-Based Compensation:

Statement of Financial Accounting Standards Number 123R (revised 2004), Share-Based Payment (SFAS 123R), supersedes Accounting Principles Board Opinion Number 25 (APB 25) and requires companies to expense the fair value of employee stock options over the employee requisite service period. The Company adopted SFAS 123R as of the date of closing the Transaction using the modified prospective method, which requires companies to record stock compensation expense for all unvested and new awards as of the adoption date. Accordingly, prior period amounts presented herein have not been restated. Under the fair value recognition provisions of SFAS 123R, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the requisite service period. The Company recorded as a component of sales, marketing and administration expense non-cash stock compensation of $8 million for the quarter ended March 31, 2006.

Prior to the closing of the Transaction, the Company applied APB 25 in accounting for its stock option and award plans and the pro forma disclosure requirements of SFAS Number 123, Accounting for Stock-Based Compensation (SFAS 123). Had the Company adopted the full provisions of SFAS 123, stock compensation expense of $18 million, net of tax, would have been recorded in the three months ended March 31, 2005 and the resulting pro forma net income would have been $72 million.

4. Clearing Broker Assets and Liabilities:

Clearing broker assets and liabilities are comprised of the following (in millions):

	Successor	
	December 31, 2005	**March 31, 2006**
Segregated customer cash and treasury bills	$ 42	$ 32
Securities owned	36	58
Securities borrowed	261	289
Receivables from customers and other	52	37
Clearing broker assets	$ 391	$ 416
Payables to customers	$ 60	$ 64
Securities loaned	272	271
Customer securities sold short, not yet purchased	16	30
Payable to brokers and dealers	12	24
Clearing broker liabilities	$ 360	$ 389

Segregated customer cash and treasury bills are held by the Company on behalf of customers. Clearing broker securities consist of trading and investment securities at fair market values. Securities borrowed and loaned are collateralized financing transactions which are cash deposits made to or received from other broker/dealers. Receivables from and payables to customers represent amounts due or payable on cash and margin transactions.

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5. Debt and Derivative Instruments:

Effective January 1, 2006, the Company adopted the provisions of technical interpretations issued by the FASB Derivatives Implementation Group (DIG) in June 2005 (commonly known as DIG Issues B38 and B39). These interpretations outline circumstances in which a put or call option embedded in debt instruments need to be separated from the debt instrument and separately valued. As of March 31, 2006, the fair value of the put option in the Company s senior notes due 2013 and senior subordinated notes due 2015 was determined to be immaterial.

In February 2006, the Company entered into its second interest rate swap for a notional amount of $800 million. The term of the swap agreement is five years and the Company is required to pay a stream of fixed interest payments of 5.00% and, in turn, receives variable interest payments based on LIBOR (4.72% at February 6, 2006). This swap increased the hedged portion of the Company s $4.5 billion floating rate debt to $1.6 billion. Both interest rate swaps are designated and qualify as cash flow hedges under SFAS 133, Accounting for Derivative Instruments and Hedging Activities. As of March 31, 2006, the Company recorded a cumulative unrealized after-tax gain of $8 million in Other Comprehensive Income related to the change in the market value on the swaps, which may be recognized in the statement of operations if certain terms of the senior secured credit facility change, if the loan is extinguished or if the swap agreement is terminated prior to maturity.

6. Comprehensive Income (Loss):

Comprehensive income (loss) consists of net income (loss) adjusted for other increases and decreases affecting stockholder s equity that are excluded from the determination of net income (loss). The calculation of comprehensive income (loss) follows (in millions):

	Predecessor Three Months Ended March 31, 2005	Successor Three Months Ended March 31, 2006
Net income (loss)	$ 90	$ (46)
Foreign currency translation gains (losses)	(19)	4
Unrealized gain on derivative instruments		9
Comprehensive income (loss)	$ 71	$ (33)

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7. Segment Information:

The Company has three segments: FS and HEPS, which together form the Company s Software & Processing Solutions business, and AS. The operating results for each segment follow (in millions):

	Predecessor Three Months Ended March 31, 2005	Successor Three Months Ended March 31, 2006
Revenue:		
Financial systems	$ 456	$ 477
Higher education and public sector systems	174	196
Software & processing solutions	630	673
Availability services	317	330
	$ 947	$ 1,003
Income (loss) from operations:		
Financial systems	$ 79	$ 34
Higher education and public sector systems	27	22
Software & processing solutions	106	56
Availability services	70	61
Corporate administration	(16)	(26)
Merger and other costs	(4)	(2)
	$ 156	$ 89
Depreciation and amortization:		
Financial systems	$ 16	$ 13
Higher education and public sector systems	3	4
Software & processing solutions	19	17
Availability services	37	40
Corporate administration		
	$ 56	$ 57
Amortization of acquisition-related intangible assets:		
Financial systems	$ 16	$ 52
Higher education and public sector systems	11	15
Software & processing solutions	27	67
Availability services	7	29
Corporate administration		

	$	34	$	96
Cash paid for property and equipment:				
Financial systems	$	13	$	11
Higher education and public sector systems		4		2
Software & processing solutions		17		13
Availability services		32		52
Corporate administration				
	$	49	$	65

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8. Related Party Transactions:

In accordance with the Management Agreement between the Company and the Sponsors, the Company recorded $4 million of management fees, in sales, marketing and administration expenses in the statement of operations, and $3 million was included in other accrued expenses on the balance sheet at March 31, 2006.

9. Supplemental Guarantor Condensed Consolidating Financial Statements:

On August 11, 2005, in connection with the Transaction, the Company issued $3.0 billion aggregate principal amount of the outstanding senior notes and the outstanding senior subordinated notes. The senior notes are jointly and severally and unconditionally guaranteed on a senior unsecured basis and the senior subordinated notes are jointly and severally and unconditionally guaranteed on an unsecured senior subordinated basis, in each case, subject to certain exceptions, by substantially all wholly owned domestic subsidiaries of the Company (collectively, the Guarantors). All other subsidiaries of the Company, either direct or indirect, do not guarantee the senior notes and senior subordinated notes (Non-Guarantors). The Guarantors also unconditionally guarantee the senior secured credit facilities.

The following tables present the financial position, results of operations and cash flows of the Company (Parent), the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and Eliminations as of March 31, 2006 and December 31, 2005 and for each of the three month periods ended March 31, 2006 and 2005, to arrive at the information for SunGard Data Systems Inc. on a consolidated basis.

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Supplemental Condensed Consolidating Balance Sheet

(in millions)	Parent Company	Guarantor Subsidiaries	(Successor) March 31, 2006 Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current:					
Cash and cash equivalents	$ 22	$ (8)	$ 272	$	$ 286
Intercompany balances	(1,616)	1,553	63		
Trade receivables, net	2	32	175		209
Prepaid expenses, taxes and other current assets	496	100	725	(459)	862
Total current assets	(1,096)	1,677	1,235	(459)	1,357
Property and equipment, net	1	510	210		721
Intangible assets, net	222	4,816	512		5,550
Goodwill		6,271	637		6,908
Intercompany balances	(744)	720	24		
Investment in subsidiaries	12,514	1,532		(14,046)	
Total Assets	$ 10,897	$ 15,526	$ 2,618	$ (14,505)	$ 14,536
Liabilities and Stockholder s Equity					
Current:					
Short-term and current portion of long-term debt	$ 37	$ 3	$ 5	$	$ 45
Accounts payable and other current liabilities	108	1,203	808	(459)	1,660
Total current liabilities	145	1,206	813	(459)	1,705
Long-term debt	7,198	3	306		7,507
Intercompany debt	(1)	217	(127)	(89)	
Deferred income taxes	9	1,586	183		1,778
Total liabilities	7,351	3,012	1,175	(548)	10,990
Total stockholder s equity	3,546	12,514	1,443	(13,957)	3,546
Total Liabilities and Stockholder s Equity	$ 10,897	$ 15,526	$ 2,618	$ (14,505)	$ 14,536

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	Supplemental Condensed Consolidating Balance Sheet (Successor) December 31, 2005				
(in millions)	**Parent Company**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Assets					
Current:					
Cash and cash equivalents	$ 74	$ (8)	$ 251	$	$ 317
Intercompany balances	(1,536)	1,442	94		
Trade receivables, net	2	46	180		228
Prepaid expenses, taxes and other current assets	321	142	674	(316)	821
Total current assets	(1,139)	1,622	1,199	(316)	1,366
Property and equipment, net	1	496	208		705
Intangible assets, net	215	4,877	520		5,612
Goodwill		6,272	632		6,904
Intercompany balances	(744)	732	12		
Investment in subsidiaries	12,568	1,563		(14,131)	
Total Assets	$ 10,901	$ 15,562	$ 2,571	$ (14,447)	$ 14,587
Liabilities and Stockholder s Equity					
Current:					
Short-term and current portion of long-term debt	$ 37	$ 3	$ 6	$	$ 46
Accounts payable and other current liabilities	204	1,158	737	(316)	1,783
Total current liabilities	241	1,161	743	(316)	1,829
Long-term debt	7,078	4	301		7,383
Intercompany debt	5	212	(134)	(83)	
Deferred income taxes	5	1,617	181		1,803
Total liabilities	7,329	2,994	1,091	(399)	11,015
Total stockholder s equity	3,572	12,568	1,480	(14,048)	3,572
Total Liabilities and Stockholder s Equity	$ 10,901	$ 15,562	$ 2,571	$ (14,447)	$ 14,587

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Supplemental Condensed Consolidating Schedule of Operations

(Successor)

	Three Months Ended March 31, 2006				
(in millions)	**Parent Company**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Total revenue	$	$ 748	$ 294	$ (39)	$ 1,003
Costs and expenses:					
Cost of sales and direct operating		360	151	(39)	472
Sales, marketing and administration	28	129	66		223
Product development		43	21		64
Depreciation and amortization		42	15		57
Amortization of acquisition-related intangible assets		80	16		96
Merger costs	2				2
	30	654	269	(39)	914
Income (loss) from operations	(30)	94	25		89
Net interest income (expense)	(151)		(3)		(154)
Other income (expense)	(144)	(28)	(9)	169	(12)
Income (loss) before income taxes	(325)	66	13	169	(77)
Provision (benefit) for income taxes	(279)	210	38		(31)
Net income (loss)	$ (46)	$ (144)	$ (25)	$ 169	$ (46)

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Supplemental Condensed Consolidating Schedule of Operations

(Predecessor)

(in millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	Three Months Ended March 31, 2005				
Total revenue	$	$ 714	$ 270	$ (37)	$ 947
Costs and expenses:					
Cost of sales and direct operating		359	121	(37)	443
Sales, marketing and administration	16	113	65		194
Product development		40	20		60
Depreciation and amortization		41	15		56
Amortization of acquisition-related intangible assets		25	9		34
Merger costs	4				4
	20	578	230	(37)	791
Income (loss) from operations	(20)	136	40		156
Net interest income (expense)	(6)		2		(4)
Other income (expense)	102	32		(134)	
Income (loss) before income taxes	76	168	42	(134)	152
Provision (benefit) for income taxes	(12)	64	10		62
Net income (loss)	$ 88	$ 104	$ 32	$ (134)	$ 90

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Supplemental Condensed Consolidating Schedule of Cash Flows (Successor)

	Three Months Ended March 31, 2006				
(in millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flow From Operations					
Net income (loss)	$ (46)	$ (144)	$ (25)	$ 169	$ (46)
Non cash adjustments	163	105	32	(169)	131
Changes in operating assets and liabilities	(277)	113	26		(138)
Cash flow provided by (used in) operations	(160)	74	33		(53)
Investment Activities					
Intercompany transactions		(1)	1		
Cash paid for businesses acquired by the Company, net of cash acquired		(8)			(8)
Cash paid for property and equipment		(64)	(14)		(78)
Other investing activities	(7)		2		(5)
Cash used in investment activities	(7)	(73)	(11)		(91)
Financing Activities					
Net borrowings (repayments) of long-term debt	115	(1)	(1)		113
Cash provided by (used in) financing activities	115	(1)	(1)		113
Increase (decrease) in cash and cash equivalents	(52)		21		(31)
Beginning cash and cash equivalents	74	(8)	251		317
Ending cash and cash equivalents	$ 22	$ (8)	$ 272	$	$ 286

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Supplemental Condensed Consolidating Schedule of Cash Flows

(Predecessor)

(in millions)	Three Months Ended March 31, 2005 Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash Flow From Operations					
Net income (loss)	$ 88	$ 104			