

SUNGARD DATA SYSTEMS INC

Form 10-Q

May 10, 2005

Table of Contents

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2005

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

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**SunGard<sup>®</sup> Data Systems Inc.**

(Exact name of registrant as specified in its charter)

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

**51-0267091**  
(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)

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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

There were 290,245,189 shares of the registrant's common stock, par value \$.01 per share, outstanding at March 31, 2005.

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**Table of Contents**

**SUNGARD DATA SYSTEMS INC.**

**AND SUBSIDIARIES**

**INDEX**

	<b><u>PAGE</u></b>
PART I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements:</u>	
<u>Consolidated Balance Sheets as of March 31, 2005 (unaudited) and December 31, 2004</u>	1
<u>Consolidated Statements of Income for the three months ended March 31, 2005 and 2004 (unaudited)</u>	2
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2005 and 2004 (unaudited)</u>	3
<u>Notes to Consolidated Financial Statements (unaudited)</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	19
Item 4. <u>Controls and Procedures</u>	20
PART II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	21
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	21
Item 3. <u>Defaults upon Senior Securities</u>	21
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	21
Item 5. <u>Other Information</u>	21
Item 6. <u>Exhibits</u>	22
<u>SIGNATURES</u>	23

**Table of Contents****Part I. FINANCIAL INFORMATION****Item 1. Financial Statements****SunGard Data Systems Inc.****Consolidated Balance Sheets****(In thousands, except per-share amounts)**

	March 31, 2005	December 31, 2004
	(unaudited)	
<b>Assets</b>		
Current:		
Cash and equivalents	\$ 404,237	\$ 674,946
Trade receivables, less allowance for doubtful accounts of \$51,637 and \$50,036	687,457	618,181
Earned but unbilled receivables	123,788	117,564
Prepaid expenses and other current assets	132,515	108,766
Clearing broker assets	455,652	232,450
Deferred income taxes	50,385	42,579
<b>Total current assets</b>	<b>1,854,034</b>	<b>1,794,486</b>
Property and equipment, less accumulated depreciation of \$962,471 and \$924,895	690,534	620,293
Software products, less accumulated amortization of \$436,593 and \$415,950	381,834	352,722
Customer base, less accumulated amortization of \$228,918 and \$213,393	698,158	556,965
Other tangible and intangible assets, less accumulated amortization of \$22,210 and \$25,816	44,928	45,958
Goodwill	2,018,400	1,824,217
<b>Total Assets</b>	<b>\$ 5,687,888</b>	<b>\$ 5,194,641</b>
<b>Liabilities and Stockholders Equity</b>		
Current:		
Short-term and current portion of long-term debt	\$ 22,428	\$ 45,332
Accounts payable	76,389	60,334
Accrued compensation and benefits	141,114	179,638
Other accrued expenses	355,955	252,381
Clearing broker liabilities	428,148	208,730
Deferred revenue	670,755	629,710
<b>Total current liabilities</b>	<b>1,694,789</b>	<b>1,376,125</b>
Long-term debt	507,151	509,046
Deferred income taxes	117,493	57,834
<b>Total liabilities</b>	<b>2,319,433</b>	<b>1,943,005</b>
Commitments and contingencies		

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Stockholders' equity:

Preferred stock, par value \$.01 per share; 5,000 shares authorized, of which 3,200 is designated as Series A		
Junior Participating Preferred Stock		
Common stock, par value \$.01 per share; 800,000 shares authorized; 294,175 and 292,258 shares issued	2,942	2,923
Capital in excess of par value	1,003,009	957,092
Restricted stock plans	(1,922)	(2,143)
Retained earnings	2,310,223	2,220,631
Accumulated other comprehensive income	158,034	176,964
	<u>3,472,286</u>	<u>3,355,467</u>
Treasury stock, at cost, 3,930 shares	(103,831)	(103,831)
	<u>3,368,455</u>	<u>3,251,636</u>
<b>Total stockholders' equity</b>	<b>\$ 3,368,455</b>	<b>\$ 3,251,636</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 5,687,888</b>	<b>\$ 5,194,641</b>

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

**Table of Contents****SunGard Data Systems Inc.****Consolidated Statements of Income****(In thousands, except per-share amounts)****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Revenue:</b>		
Services	<b>\$ 839,580</b>	\$ 759,474
License and resale fees	<b>81,604</b>	55,764
	<b>921,184</b>	815,238
Total products and services	<b>921,184</b>	815,238
Reimbursed expenses	<b>25,319</b>	25,411
	<b>946,503</b>	840,649
<b>Costs and expenses:</b>		
Cost of sales and direct operating	<b>443,374</b>	391,066
Sales, marketing and administration	<b>193,687</b>	163,644
Product development	<b>60,322</b>	58,924
Depreciation and amortization	<b>56,438</b>	53,357
Amortization of acquisition-related intangible assets	<b>34,008</b>	26,782
Merger and spin-off costs	<b>3,767</b>	
	<b>791,596</b>	693,773
Income from operations	<b>154,907</b>	146,876
Interest income	<b>3,290</b>	1,842
Interest expense	<b>(6,941)</b>	(7,194)
Income before income taxes	<b>151,256</b>	141,524
Income taxes	<b>61,660</b>	55,902
Net income	<b>\$ 89,596</b>	\$ 85,622
Basic net income per common share	<b>\$ 0.31</b>	\$ 0.30
Shares used to compute basic net income per common share	<b>288,896</b>	289,156
Diluted net income per common share	<b>\$ 0.30</b>	\$ 0.29
Shares used to compute diluted net income per common share	<b>294,983</b>	296,542

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

**Table of Contents****SunGard Data Systems Inc.****Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b><i>Cash flow from operations:</i></b>		
Net income	\$ 89,596	\$ 85,622
Reconciliation of net income to cash flow from operations:		
Depreciation and amortization	90,446	80,139
Other noncash credits	(5,532)	(3,574)
Deferred income tax provision (benefit)	(2,030)	9,722
Accounts receivable and other current assets	(27,239)	52,238
Accounts payable and accrued expenses	3,529	(42,958)
Clearing broker assets and liabilities, net	(4,015)	4,609
Deferred revenue	26,228	(7,662)
Cash flow from operations	<u>170,983</u>	<u>178,136</u>
<b><i>Financing activities:</i></b>		
Cash received from stock option and award plans	39,077	22,509
Cash received from borrowings, net of fees	75,234	590,947
Cash used to repay debt	(115,511)	(68,825)
Cash (used in) provided by financing activities	<u>(1,200)</u>	<u>544,631</u>
<b><i>Investment activities:</i></b>		
Cash paid for acquired businesses, net of cash acquired	(385,620)	(716,852)
Cash paid for property and equipment	(48,520)	(45,206)
Cash paid for software and other assets	(6,352)	(8,250)
Cash used in investment activities	<u>(440,492)</u>	<u>(770,308)</u>
Decrease in cash and equivalents	(270,709)	(47,541)
Beginning cash and equivalents	674,946	478,941
Ending cash and equivalents	<u>\$ 404,237</u>	<u>\$ 431,400</u>
<b><i>Supplemental information:</i></b>		
Acquired businesses:		
Property and equipment	\$ 66,004	\$ 28,667
Software products	43,020	138,694
Customer base	163,857	189,225
Goodwill	204,408	495,400
Other tangible and intangible assets	2,545	5,233

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Deferred income taxes	(55,334)	(78,885)
Purchase price obligations and debt assumed	(16,019)	(18,926)
Net current liabilities assumed	(22,861)	(42,556)
	<u>          </u>	<u>          </u>
Cash paid for acquired businesses, net of cash acquired of \$30,983 and \$146,470, respectively	<b>\$ 385,620</b>	<b>\$ 716,852</b>
	<u>          </u>	<u>          </u>

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

**Table of Contents**

**SUNGARD DATA SYSTEMS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. Basis of Presentation:**

SunGard Data Systems Inc. has three segments: Financial Systems (FS, formerly Investment Support Systems), Higher Education and Public Sector Systems (HE/PS) and Availability Services (AS). The Company's Software & Processing Solutions business is comprised of the FS and HE/PS 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 accompanying interim consolidated financial statements of the Company have been prepared in conformity with accounting principles gene