SS&C Technologies Holdings Inc
Form 10-Q
November 08, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

Commission File Number 001-34675

SS&C TECHNOLOGIES HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**71-0987913**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

80 Lamberton Road

Windsor, CT 06095

(Address of principal executive offices, including zip code)

860-298-4500

(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 x 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 x No ¨

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

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

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 78,882,145 shares of the registrant s common stock outstanding as of November 7, 2012.

SS&C TECHNOLOGIES HOLDINGS, INC.

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This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes , anticipates , plans , expects , should , and similar expressions are intended to identify forward-looking statements. The important factors discussed under the caption Risk Factors in the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed with the Securities and Exchange Commission on August 9, 2012, among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. The Company does not undertake an obligation to update its forward-looking statements to reflect future events or circumstances.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash	$ 80,255	$ 40,318
Accounts receivable, net of allowance for doubtful accounts of $2,920 and $2,006, respectively	91,898	47,201
Prepaid expenses and other current assets	11,598	5,214
Prepaid income taxes	17,114	788
Deferred income taxes	5,327	889
Restricted cash	2,460	1,149
Total current assets	208,652	95,559
Property and equipment:		
Land	2,655	
Leasehold improvements	28,383	6,468
Equipment, furniture, and fixtures	51,930	34,802
	82,968	41,270
Less accumulated depreciation	(31,914)	(26,966)
Net property and equipment	51,054	14,304
Deferred income taxes	3,884	1,111
Goodwill	1,531,009	931,639
Intangible and other assets, net of accumulated amortization of $234,278 and $188,907, respectively	586,664	164,995
Total assets	$ 2,381,263	$ 1,207,608
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 4)	$ 23,406	$
Accounts payable	6,947	4,170
Accrued employee compensation and benefits	32,317	19,770
Other accrued expenses	22,518	14,058
Interest payable		95
Deferred maintenance and other revenue	55,975	46,395
Total current liabilities	141,163	84,488
Long-term debt (Note 4)	1,047,392	100,000
Other long-term liabilities	16,223	14,081
Deferred income taxes	119,539	28,936
Total liabilities	1,324,317	227,505

Commitments and contingencies (Note 7)

Stockholders equity (Note 2):		
Common stock:		
Class A non-voting common stock, $0.01 par value per share, 5,000 shares authorized; 1,429 shares issued and outstanding, of which 26 and 64 are unvested, respectively	14	14
Common stock, $0.01 par value per share, 100,000 shares authorized; 77,939 shares and 76,723 shares issued, respectively, and 77,451 shares and 76,235 shares outstanding, respectively	779	767
Additional paid-in capital	848,968	829,994
Accumulated other comprehensive income	53,532	25,413
Retained earnings	159,472	129,734
	1,062,765	985,922
Less: cost of common stock in treasury, 488 shares	(5,819)	(5,819)
Total stockholders equity	1,056,946	980,103
Total liabilities and stockholders equity	$ 2,381,263	$ 1,207,608

See accompanying notes to Condensed Consolidated Financial Statements.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenues:				
Software licenses	$ 5,885	$ 5,786	$ 15,463	$ 17,341
Maintenance	25,519	19,594	67,993	58,459
Professional services	8,553	5,688	21,562	16,815
Software-enabled services	125,605	63,255	275,069	182,518
Total revenues	165,562	94,323	380,087	275,133
Cost of revenues:				
Software licenses	1,764	1,714	4,609	5,089
Maintenance	10,883	8,729	29,338	26,196
Professional services	5,126	3,888	13,803	11,439
Software-enabled services	75,965	32,148	155,940	93,887
Total cost of revenues	93,738	46,479	203,690	136,611
Gross profit	71,824	47,844	176,397	138,522
Operating expenses:				
Selling and marketing	8,970	7,308	24,628	21,216
Research and development	13,193	9,328	32,478	26,353
General and administrative	11,668	7,118	24,527	20,861
Transaction costs	748		14,322	
Total operating expenses	34,579	23,754	95,955	68,430
Operating income	37,245	24,090	80,442	70,092
Interest expense, net	(13,726)	(3,215)	(18,760)	(11,816)
Other (expense) income, net	(1,808)	348	(16,225)	180
Loss on extinguishment of debt			(4,355)	(2,881)
Income before income taxes	21,711	21,223	41,102	55,575
Provision for income taxes	4,096	6,324	11,364	17,814
Net income	$ 17,615	$ 14,899	$ 29,738	$ 37,761
Basic earnings per share	$ 0.22	$ 0.19	$ 0.38	$ 0.50
Basic weighted average number of common shares outstanding	78,548	77,315	78,123	76,149
Diluted earnings per share	$ 0.21	$ 0.18	$ 0.36	$ 0.47

Diluted weighted average number of common and common equivalent shares outstanding	83,202	80,730	82,744	80,109
Net income	$ 17,615	$ 14,899	$ 29,738	$ 37,761
Other comprehensive income (loss), net of tax:				
Foreign currency exchange translation adjustment	24,649	(24,656)	28,119	(14,536)
Total other comprehensive income (loss), net of tax	24,649	(24,656)	28,119	(14,536)
Comprehensive income (loss)	$ 42,264	$ (9,757)	$ 57,857	$ 23,225

See accompanying notes to Condensed Consolidated Financial Statements.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash flow from operating activities:		
Net income	$ 29,738	$ 37,761
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	50,620	31,482
Amortization of loan origination costs	7,814	2,223
Loss on sale or disposition of property and equipment	13	11
Income tax benefit related to exercise of stock options	(2,863)	(4,889)
Deferred income taxes	(7,723)	(8,781)
Stock-based compensation expense	3,798	9,215
Provision for doubtful accounts	473	788
Changes in operating assets and liabilities, excluding effects from acquisitions:		
Accounts receivable	(14,652)	581
Prepaid expenses and other assets	8,873	(188)
Accounts payable	(2,240)	(535)
Accrued expenses	(5,420)	(1,168)
Income taxes receivable and payable	(4,333)	2,460
Deferred maintenance and other revenues	(3,432)	2,619
Net cash provided by operating activities	60,666	71,579
Cash flow from investing activities:		
Additions to property and equipment	(8,839)	(4,437)
Cash paid for business acquisitions, net of cash acquired	(964,523)	(19,863)
Additions to capitalized software	(640)	(1,264)
Other	87	
Net cash used in investing activities	(973,915)	(25,564)
Cash flow from financing activities:		
Cash received from debt borrowings, net of costs	1,304,210	
Repayments of debt	(366,600)	(118,210)
Proceeds from common stock issuance, net		51,971
Proceeds from exercise of stock options	12,325	7,034
Payment of contingent consideration	(1,800)	
Income tax benefit related to exercise of stock options	2,863	4,889
Net cash provided by (used in) financing activities	950,998	(54,316)
Effect of exchange rate changes on cash	2,188	(367)
Net increase (decrease) in cash and cash equivalents	39,937	(8,668)
Cash and cash equivalents, beginning of period	40,318	84,843
Cash and cash equivalents, end of period	$ 80,255	$ 76,175

Supplemental disclosure of non-cash investing activities:

See Note 10 for a discussion of acquisitions

See accompanying notes to Condensed Consolidated Financial Statements.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

SS&C Technologies Holdings, Inc., or Holdings , is our top-level holding company. SS&C Technologies, Inc., or SS&C, is our primary operating company and a wholly-owned subsidiary of SS&C Technologies Holdings, Inc. The Company means SS&C Technologies Holdings, Inc. and its consolidated subsidiaries, including SS&C.

1. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These accounting principles were applied on a basis consistent with those of the audited consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission (the SEC) on March 12, 2012 (the 2011 Form 10-K). In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments, except as noted elsewhere in the notes to the condensed consolidated financial statements) necessary to state fairly its financial position as of September 30, 2012, the results of its operations for the three and nine months ended September 30, 2012 and 2011 and its cash flows for the nine months ended September 30, 2012 and 2011. These statements do not include all of the information and footnotes required by GAAP for annual financial statements. The financial statements contained herein should be read in conjunction with the audited consolidated financial statements and footnotes as of and for the year ended December 31, 2011, which were contained in the 2011 Form 10-K. The December 31, 2011 consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP for annual financial statements. The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the expected results for any subsequent quarters or the full year.

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2012-02, Intangibles Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment (ASU 2012-02), to simplify how entities, both public and nonpublic, test indefinite-lived intangible assets for impairment. ASU 2012-02 is effective for annual and interim impairment tests performed fiscal years beginning after September 15, 2012. Early adoption is permitted. The Company is currently evaluating the impact of its pending adoption of ASU 2012-12 on its Consolidated Financial Statements.

Reclassifications

Certain amounts in prior year consolidated financial statements have been reclassified to conform to current year presentation. These reclassifications have had no impact on net income or net equity.

2. Equity and Stock-based Compensation

During the three and nine months ended September 30, 2012, the Company recorded total stock-based compensation expense of $1.4 million and $3.8 million, respectively, for stock options with time-based vesting and restricted stock.

During the three months ended September 30, 2011, the Company recorded total stock-based compensation expense of $3.8 million, of which $2.9 million related to the performance-based options based upon management s assessment of the probability that the Company s EBITDA for 2011 would meet or exceed the high end of the targeted range. During the nine months ended September 30, 2011, the Company recorded total stock-based compensation expense of $9.2 million, of which $6.5 million related to the performance-based options based upon management s assessment of the probability that the Company s EBITDA for 2011 would meet or exceed the high end of the targeted range. Time-based options represented the remaining $0.9 million and $2.7 million of compensation expense recorded during the three and nine months ended September 30, 2011, respectively.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(unaudited)

The amount of stock-based compensation expense recognized in the Company s Condensed Consolidated Statements of Comprehensive Income was as follows (in thousands):

Statements of Comprehensive Income Classification	**Three Months Ended September 30, 2012**	**2011**	**Nine Months Ended September 30, 2012**	**2011**
Cost of maintenance	$ 57	$ 101	$ 171	$ 231
Cost of professional services	61	141	184	283
Cost of software-enabled services	383	745	942	1,751
Total cost of revenues	501	987	1,297	2,265
Selling and marketing	255	577	726	1,385
Research and development	145	399	384	886
General and administrative	485	1,818	1,392	4,679
Total operating expenses	885	2,794	2,502	6,950
Total stock-based compensation expense	$ 1,386	$ 3,781	$ 3,799	$ 9,215

A summary of stock option activity as of and for the nine months ended September 30, 2012 is as follows:

	Shares of Common Stock Underlying Options
Outstanding at January 1, 2012	12,083,861
Granted	1,457,750
Cancelled/forfeited	(160,894)
Exercised	(1,215,558)
Outstanding at September 30, 2012	12,165,159

3. Basic and Diluted Earnings Per Share

Earnings per share (EPS) is calculated in accordance with relevant accounting guidance as follows. Basic earnings per share includes no dilution and is computed by dividing income available to the Company s common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and common equivalent shares outstanding during the period. Common equivalent shares consist of stock options and restricted shares calculated using the treasury stock method. Common equivalent shares are excluded from the computation of diluted earnings per share if the effect of including such common equivalent shares is antidilutive because their exercise prices together with other assumed proceeds exceed the average fair value of the Company s common stock during the period.

The following table sets forth the weighted average common shares used in the computation of basic and diluted earnings per share (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Weighted average common shares outstanding	78,548	77,315	78,123	76,149
Weighted average common stock equivalents options and restricted shares	4,654	3,415	4,621	3,960
Weighted average common and common equivalent shares outstanding	83,202	80,730	82,744	80,109

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(unaudited)

Options to purchase 577,556 and 2,179,164 shares were outstanding for the three months ended September 30, 2012 and 2011, and options to purchase 407,589 and 258,039 shares were outstanding for the nine months ended September 30, 2012 and 2011, respectively, but were not included in the computation of diluted earnings per share because the effect of including such options would be antidilutive.

4. Debt

At September 30, 2012 and December 31, 2011, debt consisted of the following (in thousands):

	September 30, 2012	December 31, 2011
Credit facility, weighted-average interest rate of 4.42%	$ 1,080,000	$
Unamortized original issue discount	(9,202)	
Prior senior credit facility, weighted-average interest rate of 2.03%		100,000
	1,070,798	100,000
Short-term borrowings and current portion of long-term debt	(23,406)	
Long-term debt	$ 1,047,392	$ 100,000

The carrying value of the Company s credit facilities approximate fair value given the variable rate nature of the debt, and as such, are a Level 2 liability (as discussed in Note 6).

Capitalized financing costs of $1.0 million and $0.4 million were amortized to interest expense during the three months ended September 30, 2012 and 2011, respectively. Capitalized financing costs of $1.5 million and $1.3 million were amortized to interest expense during the nine months ended September 30, 2012 and 2011, respectively. During the three and nine months ended September 30, 2012, the Company amortized to interest expense $0.3 million and $0.4 million, respectively, of the original issue discount associated with the outstanding credit facility. Additionally, during the nine months ended September 30, 2012, the Company had $4.4 million in losses on extinguishment of debt associated with the repayment of the prior senior credit facility.

On March 14, 2012, Holdings entered into a Credit Agreement among SS&C and SS&C Technologies Holdings Europe S.A.R.L., a Luxembourg *société à responsabilité limitée* and an indirect wholly-owned subsidiary of SS&C (SS&C Sarl), as the borrowers, Holdings and certain subsidiaries of SS&C as guarantors, Deutsche Bank AG New York Branch, as administrative agent, swing line lender and letter of credit issuer, the other lenders party thereto and Deutsche Bank Securities, Inc., Barclays Bank PLC, Credit Suisse Securities (USA) LLC and Wells Fargo Securities, LLC, as joint lead arrangers and joint bookrunners. The Company entered into amendments to the Credit Agreement on each of May 23, 2012 and June 1, 2012.

The Credit Agreement has four tranches of term loans: (i) a $0 term A-1 facility with a five and one-half year term for borrowings by SS&C, (ii) a $325 million term A-2 facility with a five and one-half year term for borrowings by SS&C Sarl, (iii) a $725 million term B-1 facility with a seven year term for borrowings by SS&C and (iv) a $75 million term B-2 facility with a seven year term for borrowings by SS&C Sarl. In addition, the Credit Agreement had a $142 million bridge loan facility, of which $31.6 million was immediately drawn, with a 364-day term available for borrowings by SS&C Sarl and has a revolving credit facility with a five and one-half year term available for borrowings by SS&C with $100 million in commitments. The revolving credit facility contains a $25 million letter of credit sub-facility and a $20 million swingline loan sub-facility. The bridge loan was repaid in July 2012 and is no longer available for borrowing.

The term loans and the revolving credit facility bear interest, at the election of the borrowers, at either the base rate (as defined in Credit Agreement) or LIBOR, plus the applicable interest rate margin for the credit facility. The term A loans and the revolving credit facility initially bear interest at either LIBOR plus 2.75% or at the base rate plus 1.75%, and then will be subject to a step-down based on SS&C s consolidated net senior secured leverage ratio and would be equal to 2.50% in the case of the LIBOR margin, and 1.50% in the case of the base rate margin. The term B loans bear interest at either LIBOR plus 4.00% or at base rate plus 3.00%, with LIBOR subject to a 1.00% floor.

The initial proceeds of the borrowings under the Credit Agreement were used to satisfy a portion of the consideration required to fund the Company s acquisition of GlobeOp Financial Services, S.A. (GlobeOp) and to refinance amounts outstanding under SS&C s existing credit facility.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(unaudited)

Holdings, SS&C and the material domestic subsidiaries of SS&C have pledged substantially all of their tangible and intangible assets as security to support the obligations of SS&C and SS&C Sarl under the Credit Agreement. In addition, SS&C Sarl has agreed, in certain circumstances, to cause subsidiaries in foreign jurisdictions to guarantee SS&C Sarl s obligations and pledge substantially all of their assets to support the obligations of SS&C Sarl under the Credit Agreement. The Credit Agreement contains customary restrictive covenants and a financial covenant requiring the Company to maintain a specified consolidated net senior secured leverage ratio. As of September 30, 2012, the Company was in compliance with the financial and non-financial covenants.

At September 30, 2012, annual maturities of long-term debt during the next five years and thereafter are as follows (in thousands):

Year ending December 31,	
2012	$ 5,852
2013	23,406
2014	31,248
2015	39,091
2016 and thereafter	980,403
	$ 1,080,000

5. Derivatives and Hedging Activities

Derivative financial instruments are recognized on the consolidated balance sheets as either assets or liabilities and are measured at fair value. Changes in the fair values of derivatives are recorded each period in earnings or accumulated other comprehensive income, depending on whether a derivative qualifies for hedge accounting and is effective as part of a hedged transaction. Gains and losses on derivative instruments reported in accumulated other comprehensive income are subsequently included in earnings in the periods in which earnings are affected by the hedged item. The Company does not use derivative instruments for speculative purposes.

On March 14, 2012, SS&C and SS&C Sarl entered into a cooperation agreement with GlobeOp, pursuant to which SS&C Sarl issued an announcement disclosing that the Company and GlobeOp had agreed on the terms of a recommended cash offer (the Offer) to be made by SS&C Sarl to acquire the entire issued and to be issued share capital of GlobeOp for cash of 485 pence per share. As a result of the Offer s foreign currency denomination, the Company was exposed to market risks relating to fluctuations in foreign currency exchange rates. In conjunction with the Offer, the Company entered into a forward currency transaction and a currency option transaction to protect against the foreign currency exchange rate risk that existed. The transactions were contingent upon the Offer meeting the acceptance conditions and are not designated as hedge transactions. During the three months ended June 30, 2012, the forward contract was utilized at an average exchange rate of $1.584 to £1.0 on a notional amount of £423.0 million, and the option contract was sold. These transactions resulted in a loss of $14.3 million recorded in other (expense) income, net on the Condensed Consolidated Statements of Comprehensive Income for the nine months ended September 30, 2012. There were no associated losses recorded in the three months ended September 30, 2012.

6. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The fair values of cash, accounts receivable, net, and accounts payable approximate the carrying amounts due to the short-term maturities of these instruments.

The authoritative guidance relating to fair value measurements and disclosure establishes a valuation hierarchy for disclosure of the inputs to the valuations used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from or corroborated by observable market data through correlation.

Level 3 inputs are unobservable inputs based on the Company s own assumptions used to measure assets and liabilities at fair value.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(unaudited)

A financial asset s or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Recurring Fair Value Measurements

The table below segregates all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine their fair value at the measurement date (in thousands):

	Total Carrying Value at September 30, 2012	Level 1	Level 2	Level 3
Assets	$	$	$	$
Liabilities:				
Contingent consideration	$ 300	$	$	$ 300
Total liabilities	$ 300	$	$	$ 300

	Total Carrying Value at December 31, 2011	Level 1	Level 2	Level 3
Assets	$	$	$	$
Liabilities:				
Contingent consideration	$ 2,300	$	$	$ 2,300
Total liabilities	$ 2,300	$	$	$ 2,300

The Company determines the fair value of the contingent consideration liabilities associated with its acquisitions based on the potential payments of the liability associated with the unobservable input of the estimated post-acquisition financial results (the achievement of certain revenue and EBITDA targets) of the related acquisition through a certain date. As such, contingent consideration liabilities are a Level 3 liability. During the year ended December 31, 2011, the Company increased its contingent consideration liability associated with the estimated post-acquisition financial results of BenefitsXML, Inc. (BXML) through February 28, 2013 to $2.3 million. In the second quarter of 2012, the Company paid out $2.0 million of contingent consideration and reduced the remaining fair value to $0.3 million. As of September 30, 2012, the total possible undiscounted payments could range from $0 to $1.0 million. See Note 10 for further discussion of acquisitions.

7. Commitments and Contingencies

As described below, the Company s recently acquired subsidiary, GlobeOp, is a defendant in pending litigation relating to several clients for which GlobeOp performed services.

Anwar Action

On April 29, 2009, GlobeOp was added as a defendant in an ongoing putative class action (the Anwar Action) filed by Pasha S. Anwar, *et al.*, and pending in the United States District Court for the Southern District of New York against multiple defendants, relating to Greenwich Sentry

L.P. and Greenwich Sentry Partners L.P. (the FG Funds) and the FG Funds losses as a result of their investments managed by Bernard Madoff. The complaint alleges breach of fiduciary duties by GlobeOp and negligence in the performance of its duties and seeks damages of an indeterminate amount. Motions to dismiss have been filed by all parties to the action, including on behalf of GlobeOp. The judge dismissed one allegation regarding gross negligence against GlobeOp but denied the remainder of the motion to dismiss. GlobeOp has filed a motion to deny class certification and the ruling on that motion has not

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(unaudited)

yet been rendered. Merits discovery among the plaintiffs, GlobeOp and the co-defendants is ongoing. GlobeOp believes it has complied with the terms of its service agreements with the FG Funds and that it does not have any fiduciary obligations relating to the FG Funds or its investors, and therefore intends to defend this matter vigorously.

Pierce and Ferber Actions

GlobeOp was named as a defendant in derivative actions filed in New York State Supreme Court on February 17, 2009 by Frank E. Pierce and Frank E. Pierce IRA and on February 13, 2009 by David I. Ferber SEP IRA, both of whom were investors in the FG Funds (together, the Pierce and Ferber Actions). The Pierce and Ferber Actions relate to the same losses alleged in the Anwar Action and seek damages of an indeterminate amount. On November 9, 2009, the court in the Pierce and Ferber Actions granted GlobeOp s motion to compel arbitration based on the dispute resolution clause contained in the services agreements with the FG Funds. The plaintiffs had filed a notice of intent to appeal the ruling but allowed the deadline to perfect the appeal to pass without further action. Neither mediation nor arbitration proceedings have been commenced. As a part of the approval of the bankruptcy plan of the Funds, a litigation trustee was appointed by the bankruptcy court. The litigation trustee has since amended the complaints to replace Pierce and Ferber with the litigation trustee as the plaintiff in the derivative actions. GlobeOp maintains that the prior arbitration orders entered in the Pierce and Ferber Actions continue to apply to the litigation trustee. The litigation trustee has neither sought a ruling on the arbitration issue nor commenced a mediation or arbitration. GlobeOp believes it has complied with the terms of its service agreements with the FG Funds and that it does not have any fiduciary obligations relating to the FG Funds or its investors. If a mediation or arbitration is commenced, GlobeOp intends to defend these matters vigorously.

Millennium Actions

The Millennium Actions have been filed in various jurisdictions naming GlobeOp as a defendant in respect of claims arising out of valuation agent services performed by GlobeOp related to the Millennium Funds, including (i) a class action in the U.S. District Court for the Southern District of New York on behalf of investors in the Millennium Funds filed on May 14, 2012 asserting claims of $844 million, which is alleged to be the full amount of assets under management by the Millennium Funds at the funds peak valuation; (ii) an arbitration proceeding in the United Kingdom on behalf of the Millennium Funds investment managers, that commenced with a request for arbitration on July 11, 2011, and in which the investment managers now seek an indemnity of $26.5 million for sums paid by way of settlement to the Millennium Funds in a separate arbitration to which GlobeOp was not a party, as well as an indemnity for any losses that will be incurred by the investment managers in the U.S. class action; and (iii) a claim in the same arbitration proceeding by Millennium Funds against GlobeOp, asserting claims of $160 million. These actions allege that GlobeOp was negligent and in breach of contract in the performance of services for the funds and that, inter alia, GlobeOp did not discover and report a fraudulent scheme perpetrated by the funds portfolio manager. The putative class action pending in the Southern District of New York also asserts claims against SS&C. In the arbitration, GlobeOp has asserted counterclaims against both the investment managers and one of the Funds for damages in an amount yet to be quantified and an indemnity in respect of the U.S. class action. The Company cannot predict the outcome of these matters.

The Company believes that GlobeOp has strong defenses to the Anwar Action, the Pierce and Ferber Actions and the Millennium Actions and is vigorously contesting these matters.

In addition to the foregoing legal proceedings involving GlobeOp, from time to time, the Company is subject to other legal proceedings and claims that arise in the normal course of its business. In the opinion of the Company s management, the Company is not involved in any other such litigation or proceedings with third parties that management believes would have a material adverse effect on the Company or its business.

8. Goodwill

The change in carrying value of goodwill for the nine months ended September 30, 2012 was as follows (in thousands):

Balance at December 31, 2011	$ 931,639
2012 Acquisitions	581,405
Adjustments to prior acquisitions	188
Income tax benefit on rollover options exercised	(5)
Effect of foreign currency translation	17,782
Balance at September 30, 2012	$ 1,531,009

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(unaudited)

9. Product and Geographic Sales Information

The Company operates in one reportable segment. The Company attributes net sales to an individual country based upon location of the customer. The Company manages its business primarily on a geographic basis. The Company s geographic regions consist of the United States, Canada, Americas excluding the United States and Canada, Europe and Asia Pacific and Japan. The European region includes European countries as well as the Middle East and Africa.

Revenues by geography were (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
United States	$ 105,553	$ 67,162	$ 253,668	$ 191,716
Canada	14,248	13,783	42,723	40,559
Americas excluding United States and Canada	4,278	2,287	8,503	7,261
Europe	37,499	8,762	65,544	28,329
Asia Pacific and Japan	3,984	2,329	9,649	7,268
	$ 165,562	$ 94,323	$ 380,087	$ 275,133

Revenues by product group were (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Portfolio management/accounting	$ 146,959	$ 75,308	$ 324,861	$ 215,308
Trading/treasury operations	8,888	9,968	27,571	31,119
Financial modeling	2,124	1,857	6,491	5,793
Loan management/accounting	1,652	1,665	5,318	6,028
Property management	4,052	3,705	10,387	11,197
Money market processing	1,357	1,168	3,907	3,758
Training	530	652	1,552	1,930
	$ 165,562	$ 94,323	$ 380,087	$ 275,133

10. Acquisitions

On September 27, 2012, SS&C purchased the assets of Gravity Financial (Gravity) for approximately $5.8 million, plus the costs of effecting the transaction and the assumption of certain liabilities. Gravity provides full-service fund administration.

The net assets and results of operations of Gravity have been included in the Company s consolidated financial statements from September 28, 2012. The purchase price was allocated to tangible and intangible assets based on their fair value at the date of acquisition. The fair value of the intangible assets, consisting of trade name and customer relationships, was determined using the income approach. Specifically, the discounted cash flows method was utilized for customer relationships, and the relief-from-royalty method was utilized for the trade name. The intangible assets are amortized each year based on the ratio that the projected cash flows for the intangible assets bear to the total of current and expected future cash flows for the intangible assets. The customer relationships and trade name are each amortized over approximately seven years, in each case the estimated lives of the assets. The remainder of the purchase price was allocated to goodwill and is tax deductible.

In the second quarter of 2012, SS&C purchased the issued and to be issued share capital of GlobeOp for approximately $834.3 million using existing cash and debt financing as discussed in Note 4, the costs of effecting the transaction and the assumption of liabilities. GlobeOp provides independent fund services, specializing in middle and back office services and integrated risk-reporting to hedge funds, asset management firms and other sectors of the financial industry.

The net assets and results of operations of GlobeOp have been included in the Company s consolidated financial statements from June 1, 2012. The purchase price was allocated to tangible and intangible assets based on their fair value at the date of acquisition.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(unaudited)

The fair value of the intangible assets, consisting of completed technology, trade name and customer relationships, was determined using the income approach. Specifically, the relief-from-royalty method was utilized for the completed technology and trade name, and the discounted cash flows method was utilized for the customer relationships. The intangible assets are amortized each year based on the ratio that the projected cash flows for the intangible assets bear to the total of current and expected future cash flows for the intangible assets. The completed technology is amortized over approximately eight years, customer relationships are amortized over approximately ten years and trade name is amortized over approximately seventeen years, in each case the estimated lives of the assets. The remainder of the purchase price was allocated to goodwill and is not tax deductible.

On May 9, 2012, SS&C purchased the assets of Thomson Reuters PORTIA Business (the PORTIA Business) for approximately $170.0 million, plus the costs of effecting the transaction and the assumption of certain liabilities. The PORTIA Business provides a broad set of middle-to-back office capabilities that allow investment managers to track and manage the day-to-day activity in their investment portfolios.

The net assets and results of operations of the PORTIA Business have been included in the Company s consolidated financial statements from May 10, 2012. The purchase price was allocated to tangible and intangible assets based on their fair value at the date of acquisition. The fair value of the intangible assets, consisting of non-compete agreement, completed technology, trade name and customer relationships, was determined using the income approach. Specifically, the discounted cash flows method was utilized for the non-compete agreement and customer relationships, and the relief-from-royalty method was utilized for the completed technology and trade name. The intangible assets are amortized each year based on the ratio that the projected cash flows for the intangible assets bear to the total of current and expected future cash flows for the intangible assets. The non-compete agreement is amortized over approximately three years, completed technology is amortized over approximately seven years, customer relationships are amortized over approximately ten years and trade name is amortized over approximately nine years, in each case the estimated lives of the assets. The remainder of the purchase price was allocated to goodwill and is tax deductible.

The following summarizes the preliminary allocation of the purchase price for the acquisitions of the PORTIA Business, GlobeOp and Gravity (in thousands):

	The PORTIA Business	GlobeOp	Gravity
Accounts receivable	$ 7,858	$ 21,611	$ 326
Fixed assets	744	33,507	
Other assets	6	27,065	44
Acquired customer relationships and contracts	56,600	298,000	3,600
Completed technology	9,500	44,000	
Trade name	1,700	15,000	100
Non-compete agreement	600		
Goodwill	105,604	474,165	1,636
Deferred revenue	(11,924)	(731)	
Deferred income taxes		(90,378)	
Other liabilities assumed	(1,082)	(33,325)	(33)
Consideration paid, net of cash received	$ 169,606	$ 788,914	$ 5,673

The preliminary purchase price allocations for each of the acquisitions completed during the second quarter of fiscal 2012 were based upon a preliminary valuation and our estimates and assumptions for these acquisitions are subject to change as we obtain additional information for our estimates during the respective measurement periods. The primary areas of those purchase price allocations that are not yet finalized relate to certain tangible assets and liabilities acquired, identifiable intangible assets, certain legal matters, income and non-income based taxes and residual goodwill.

The fair value of acquired accounts receivable balances for the PORTIA Business, GlobeOp and Gravity approximates the contractual amounts due from acquired customers.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(unaudited)

The Company reported revenues totaling $96.9 million from the PORTIA Business, GlobeOp and Gravity from their respective acquisition dates through September 30, 2012. The following unaudited pro forma condensed consolidated results of operations are provided for illustrative purposes only and assume that the acquisitions of Gravity, GlobeOp, the PORTIA Business, BDO Simpson Xavier Fund Administration Services Limited (Ireland Fund Admin), a division of BDO, and BXML, occurred on January 1, 2011. This unaudited pro forma information (in thousands) should not be relied upon as being indicative of the historical results that would have been obtained if the acquisitions had actually occurred on that date, nor of the results that may be obtained in the future. The net assets and results of operations for these acquisitions are included in the Company s condensed consolidated financial statements as of and for the three and nine months ended September 30, 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	$ 166,270	$ 161,237	$ 494,634	$ 479,494
Net income	$ 18,385	$ 11,421	$ 41,969	$ 26,898
Basic earnings per share	$ 0.23	$ 0.15	$ 0.54	$ 0.35
Basic weighted average number of common shares outstanding	78,548	77,315	78,123	76,149
Diluted earnings per share	$ 0.22	$ 0.14	$ 0.51	$ 0.34
Diluted weighted average number of common and common equivalent shares outstanding	83,202	80,730	82,744	80,109

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

CRITICAL ACCOUNTING POLICIES

Certain of our accounting policies require the application of significant judgment by our management, and such judgments are reflected in the amounts reported in our consolidated financial statements. In applying these policies, our management uses its judgment to determine the appropriate assumptions to be used in the determination of estimates. Those estimates are based on our historical experience, terms of existing contracts, management s observation of trends in the industry, information provided by our clients and information available from other outside sources, as appropriate. Actual results may differ significantly from the estimates contained in our consolidated financial statements. There have been no material changes to our critical accounting estimates and assumptions or the judgments affecting the application of those estimates and assumptions since the filing of our 2011 Form 10-K, except that the contingent foreign currency derivative contracts we entered into require significant judgment about a significant estimate related to their fair value. Our critical accounting policies are described in the 2011 Form 10-K and include:

Revenue Recognition

Long-Lived Assets, Intangible Assets and Goodwill

Acquisition Accounting

Income Taxes

Acquisitions of PORTIA Business and GlobeOp

On May 9, 2012, we acquired the assets of the PORTIA Business for approximately $170 million. The PORTIA Business provides a broad set of middle-to-back office capabilities that allow investment managers to track and manage day-to-day activity in their investment portfolios.

On May 31, 2012, we acquired GlobeOp, for £4.85 per share (approximately $834.3 million in the aggregate). On July 9, 2012, we completed a squeeze-out procedure under Luxembourg law, after the completion of which we became the owner of 100% of the issued share capital of GlobeOp. GlobeOp provides independent fund services, specializing in middle and back office services and integrated risk-reporting to hedge funds, asset management firms and other sections of the financial industry.

The discussion in this Part I, Item 2 of this Quarterly Report on Form 10-Q includes the PORTIA Business and the operations of GlobeOp for the respective time periods each were owned by SS&C.

Results of Operations for the Three and Nine Months Ended September 30, 2012 and 2011

The following table sets forth revenues (in thousands) and changes in revenues for the periods indicated:

	Three Months Ended September 30,		%	Nine Months Ended September 30,		%
	2012	2011	Change	2012	2011	Change
Revenues:						
Software licenses	$ 5,885	$ 5,786	2%	$ 15,463	$ 17,341	(11%)
Maintenance	25,519	19,594	30%	67,993	58,459	16%
Professional services	8,553	5,688	50%	21,562	16,815	28%
Software-enabled services	125,605	63,255	99%	275,069	182,518	51%
Total revenues	$ 165,562	$ 94,323	76%	$ 380,087	$ 275,133	38%

The following table sets forth the percentage of our revenues represented by each of the following sources of revenues for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Software licenses	4%	6%	4%	6%
Maintenance	15%	21%	18%	21%
Professional services	5%	6%	6%	6%
Software-enabled services	76%	67%	72%	67%
Total revenues	100%	100%	100%	100%

Revenues

Our revenues consist primarily of software-enabled services and maintenance revenues, and, to a lesser degree, software license and professional services revenues. As a general matter, our software license and professional services revenues fluctuate based on the number of new licensing clients, while fluctuations in our software-enabled services revenues are attributable to the number of new software-enabled services clients as well as the number of outsourced transactions provided to our existing clients and total assets under management in our clients portfolios. Maintenance revenues vary based on the rate by which we add or lose maintenance clients over time and, to a lesser extent, on the annual increases in maintenance fees, which are generally tied to the consumer price index.

Revenues for the three months ended September 30, 2012 were $165.6 million compared to $94.3 million for the same period in 2011. The revenue increase of $71.3 million, or 76%, was primarily due to revenues from products and services that we acquired through our acquisitions of Ireland Fund Admin in September 2011, Teledata Communications, Inc., or TCI, in December 2011, the PORTIA Business in May 2012, GlobeOp in May 2012 and Gravity in September 2012, which added $71.0 million in revenues in the aggregate, and an increase of $0.6 million in revenues for businesses and products that we have owned for at least 12 months, or organic revenues. The increases were partially offset by the unfavorable impact from foreign currency translation of $0.3 million, resulting from the relative strength of the U.S. dollar relative to currencies such as the Canadian dollar, the British pound and the euro. Revenues for the nine months ended September 30, 2012 were $380.1 million compared to $275.1 million for the same period in 2011. The revenue increase of $105.0 million, or 38%, was primarily due to reven