

SUNGARD DATA SYSTEMS INC

Form 10-Q

November 09, 2005

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United States
Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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

SunGard[®] 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)

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 100 shares of the registrant's common stock, par value \$.01 per share, outstanding at September 30, 2005.

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

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SUNGARD DATA SYSTEMS INC.

AND SUBSIDIARIES

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Table of Contents**Part I. FINANCIAL INFORMATION****Item 1. Financial Statements****SunGard Data Systems Inc.****Consolidated Balance Sheets**

**(In thousands, except share and
per-share amounts)**

	<u>Predecessor</u>	<u>Successor</u>
	<u>December 31,</u>	<u>September 30,</u>
	<u>2004</u>	<u>2005</u>
		(unaudited)
Assets		
Current:		
Cash and equivalents	\$ 674,946	\$ 303,458
Trade receivables, less allowance for doubtful accounts of \$50,036 and \$24,657	618,181	397,463
Earned but unbilled receivables	117,564	79,753
Prepaid expenses and other current assets	108,766	139,317
Clearing broker assets	232,450	422,793
Retained interest in accounts receivable sold		150,536
Deferred income taxes	42,579	43,606
	<u>1,794,486</u>	<u>1,536,926</u>
Total current assets		
Property and equipment, less accumulated depreciation of \$924,895 and \$27,541	620,293	716,980
Software products, less accumulated amortization of \$415,950 and \$26,896	352,722	1,241,391
Customer base, less accumulated amortization of \$213,393 and \$27,892	556,965	2,704,123
Other tangible and intangible assets, less accumulated amortization of \$25,816 and \$985	45,958	233,361
Trade name		770,000
Goodwill	1,824,217	7,260,336
	<u>\$ 5,194,641</u>	<u>\$ 14,463,117</u>
Total Assets		
Liabilities and Stockholders Equity		
Current:		
Short-term and current portion of long-term debt	\$ 45,332	\$ 49,614
Accounts payable	60,334	60,093
Accrued compensation and benefits	179,638	190,287
Other accrued expenses	252,381	290,915
Clearing broker liabilities	208,730	411,866
Deferred revenue	629,710	653,863
	<u>1,376,125</u>	<u>1,656,638</u>
Total current liabilities		

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Long-term debt	509,046	7,680,555
Deferred income taxes	57,834	1,548,052
	<hr/>	<hr/>
Total liabilities	1,943,005	10,885,245
	<hr/>	<hr/>
Commitments and contingencies		
Stockholders' equity:		
Predecessor:		
Preferred stock, par value \$.01 per share; 5,000,000 shares authorized, of which 3,200,000 is designated as Series A Junior Participating Preferred Stock		
Common stock, par value \$.01 per share; 800,000,000 shares authorized; 292,257,243 shares issued at December 31, 2004	2,923	
Successor:		
Common stock, par value \$.01 per share; 100 shares authorized, issued and outstanding at September 30, 2005		
Capital in excess of par value	957,092	3,612,460
Restricted stock plans	(2,143)	
Retained earnings (accumulated deficit)	2,220,631	(23,071)
Accumulated other comprehensive income (loss)	176,964	(11,517)
	<hr/>	<hr/>
	3,355,467	3,577,872
Treasury stock, at cost, 3,930,000 and 0 shares	(103,831)	
	<hr/>	<hr/>
Total stockholders' equity	3,251,636	3,577,872
	<hr/>	<hr/>
Total Liabilities and Stockholders' Equity	\$ 5,194,641	\$ 14,463,117
	<hr/>	<hr/>

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

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

	Predecessor		Successor
	Nine months ended September 30, 2004	Period from January 1, 2005 through August 10, 2005	Period from August 11, 2005 through September 30, 2005
Revenue:			
Services	\$ 2,364,263	\$ 2,125,549	\$ 490,719
License and resale fees	200,974	179,589	42,246
Total products and services	2,565,237	2,305,138	532,965
Reimbursed expenses	73,469	66,203	14,828
	2,638,706	2,371,341	547,793
Costs and expenses:			
Cost of sales and direct operating	1,216,793	1,119,555	246,530
Sales, marketing and administration	480,987	456,003	116,837
Product development	177,541	153,657	36,390
Depreciation and amortization	162,689	141,410	32,516
Amortization of acquisition-related intangible assets	89,491	84,092	51,187
Merger costs	3,076	121,013	18,443
	2,130,577	2,075,730	501,903
Income from operations	508,129	295,611	45,890
Interest income	5,233	9,076	2,157
Interest expense	(22,173)	(16,617)	(88,268)
Other income (expense)	79,362	(174)	(2,734)
Income (loss) before income taxes	570,551	287,896	(42,955)
Provision (benefit) for income taxes	228,789	142,144	(19,884)
Net income (loss)	\$ 341,762	\$ 145,752	\$ (23,071)

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

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

	<u>Predecessor</u>		<u>Successor</u>
	<u>Three months ended September 30, 2004</u>	<u>Period from July 1, 2005 through August 10, 2005</u>	<u>Period from August 11, 2005 through September 30, 2005</u>
Revenue:			
Services	\$ 799,878	\$ 388,503	\$ 490,719
License and resale fees	75,540	17,562	42,246
Total products and services	875,418	406,065	532,965
Reimbursed expenses	23,920	11,363	14,828
	<u>899,338</u>	<u>417,428</u>	<u>547,793</u>
Costs and expenses:			
Cost of sales and direct operating	410,484	205,471	246,530
Sales, marketing and administration	158,481	75,650	116,837
Product development	57,728	29,108	36,390
Depreciation and amortization	54,679	26,006	32,516
Amortization of acquisition-related intangible assets	31,065	15,486	51,187
Merger costs	3,500	102,708	18,443
	<u>715,937</u>	<u>454,429</u>	<u>501,903</u>
Income (loss) from operations	183,401	(37,001)	45,890
Interest income	1,859	2,809	2,157
Interest expense	(7,780)	(3,032)	(88,268)
Other income (expense)	79,362		(2,734)
Income (loss) before income taxes	256,842	(37,224)	(42,955)
Provision (benefit) for income taxes	103,305	5,441	(19,884)
Net income (loss)	\$ 153,537	\$ (42,665)	\$ (23,071)

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)**

	<u>Predecessor</u>		<u>Successor</u>
	<u>Nine months ended September 30, 2004</u>	<u>Period from January 1, 2005 through August 10, 2005</u>	<u>Period from August 11, 2005 through September 30, 2005</u>
<i>Cash flow from operations:</i>			
Net income (loss)	\$ 341,762	\$ 145,752	\$ (23,071)
Reconciliation of net income (loss) to cash flow from operations:			
Gain on sale of Brut, net of tax	(47,049)		
Depreciation and amortization	252,180	225,502	83,703
Stock compensation expense		58,798	7,949
Deferred income tax provision	30,356	14,671	23,941
Deferred financing cost amortization			5,807
Other noncash credits	(17,523)	(17,046)	(3,651)
Accounts receivable and other current assets	69,092	78,979	104,759
Accounts payable and accrued expenses	(124,864)	77,301	10,014
Clearing broker assets and liabilities, net	(19,161)	(3,038)	14,930
Deferred revenue	(20,381)	(9,664)	32,323
	<u>464,412</u>	<u>571,255</u>	<u>256,704</u>
<i>Investment activities:</i>			
Cash paid for acquired businesses, net of cash acquired	(763,759)	(419,288)	(14,900)
Cash received for sale of businesses, net of cash sold	193,993	4,767	
Acquisition of SunGard by Solar Capital			(11,615,057)
Cash paid for property and equipment	(142,400)	(131,429)	(46,021)
Cash paid for software and other assets	(24,728)	(23,036)	(8,854)
	<u>(736,894)</u>	<u>(568,986)</u>	<u>(11,684,832)</u>
<i>Financing activities:</i>			
Cash received from stock option and award plans	45,729	385,975	
Cash used to purchase treasury stock	(65,930)		
Cash received from borrowings for the Transaction			7,333,000
Investment by Parent Companies			3,450,102
Cash received from other borrowings, net of fees	590,807	75,407	12,749
Cash used to repay debt	(289,724)	(132,457)	(70,405)
	<u>280,882</u>	<u>328,925</u>	<u>10,725,446</u>
Increase (decrease) in cash and equivalents	8,400	331,194	(702,682)
Beginning cash and equivalents	478,941	674,946	1,006,140

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Ending cash and equivalents	\$ 487,341	\$ 1,006,140	\$ 303,458
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Supplemental information:

Acquired businesses:			
Property and equipment	\$ 26,908	\$ 66,144	\$ 184
Software products	168,876	56,560	5,626
Customer base	202,112	159,723	164
Goodwill	521,681	213,387	6,518
Other tangible and intangible assets	9,794	2,495	924
Deferred income taxes	(53,980)	(52,844)	676
Purchase price obligations and debt assumed	(58,186)	(20,894)	(2,460)
Net current (liabilities) assets assumed	(53,446)	(5,283)	3,268
Cash paid for acquired businesses, net of cash acquired of \$148,749, \$30,958 and \$0, respectively			
	\$ 763,759	\$ 419,288	\$ 14,900

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

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SunGard Data Systems Inc.

Consolidated Statement of Stockholders Equity

(In thousands)

(Unaudited)

(in thousands)	Preferred Stock		Common Stock		Retained Earnings (Accumulated Deficit)		Accumulated Other Comprehensive Income (Loss)		Treasury Stock		Total
	Number of Shares	Par Value	Number of Shares	Par Value	Capital in Excess of Par Value	Restricted Stock Plans	Foreign Currency Translation	Number of Shares	Cost		
Predecessor											
Balances at December 31, 2004		\$ 292,258	\$ 2,923	\$ 957,092	\$ (2,143)	\$ 2,220,631	\$ 176,964	(3,930)	\$ (103,831)		\$ 3,251,636
Comprehensive income:											
Net income						145,752					
Foreign currency translation							(68,767)				
Total comprehensive income											76,985
Shares issued under stock plans		17,997	180	385,795							385,975
Compensation expense related to stock plans				58,798	2,143						60,941
Income tax benefit arising from employee stock options				58,078							58,078
Balances at August 10, 2005		\$ 310,255	\$ 3,103	\$ 1,459,763	\$	\$ 2,366,383	\$ 108,197	(3,930)	\$ (103,831)		\$ 3,833,615
Successor											
Investment by Parent Companies		100	\$	\$ 3,604,511	\$	\$	\$				\$ 3,604,511
Comprehensive loss:											
Net loss						(23,071)					
Foreign currency translation							(11,517)				
Total comprehensive loss											(34,588)
Stock-based compensation expense				7,949							7,949
Balances at September 30, 2005		100	\$	\$ 3,612,460	\$	\$ (23,071)	\$ (11,517)		\$		\$ 3,577,872

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

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SUNGARD DATA SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation:

SunGard Data Systems Inc. was acquired on August 11, 2005 through a merger transaction with Solar Capital Corp., a Delaware corporation formed by 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 acquisition was accomplished through the merger of Solar Capital Corp. into SunGard Data Systems Inc. with SunGard Data Systems Inc. being the surviving company (the Transaction).

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

Although SunGard Data Systems Inc. continued as the same legal entity after the Transaction, the accompanying consolidated statements of operations, cash flows and stockholders' 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 Data Systems Inc. and subsidiaries for both the Predecessor and Successor periods.

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 consolidated financial statements exclude the accounts of the Parent 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 Predecessor's Annual Report on Form 10-K for the year ended December 31, 2004. 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, 2005.

2. Acquisitions:

ACQUISITION OF SUNGARD DATA SYSTEMS INC. BY SOLAR CAPITAL CORP.

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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. See Note 5 for a description of the Company's indebtedness.

The purchase price including transaction costs was approximately \$11.77 billion. The sources and uses of funds in connection with the acquisition are summarized below (in millions):

Sources

Secured revolving credit facility	\$ 149.0
Secured term loan facilities	4,000.0
Receivables facilities	375.0
Senior notes due 2013	2,000.0
Senior subordinated notes due 2015	1,000.0
Cash on hand	641.0
Equity contribution - cash	3,450.1
Equity contribution - non-cash	154.4
	<hr/>
Total sources	\$ 11,769.5

Uses

Payment consideration to stockholders	\$ 11,240.9
Converted share and option consideration	154.4
Estimated transaction costs	374.2
	<hr/>
Total uses	\$ 11,769.5

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The non-cash equity contribution was a combination of shares and fully vested stock options of the Predecessor. The shares were converted into shares of the Parent Companies. The fully vested stock options were automatically converted into fully vested stock options of the Parent Companies (continuation options).

Preliminary Purchase Price Allocation

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 as set forth below, in millions. 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.

Property and equipment	\$ 702.0
Software products	1,259.3
Customer base	2,735.7
Trade name	770.0
Goodwill	7,262.3
Other tangible and intangible assets	228.2
Deferred income taxes	(1,531.7)
Debt assumed	(459.5)
Net current assets acquired	803.2
	<hr/>
Total purchase price	11,769.5
Non-cash equity contribution	154.4
	<hr/>
Cash used in acquisition of SunGard by Solar Capital	\$ 11,615.1
	<hr/>

The preliminary estimated useful lives are five to seven years for software and ten to nineteen years for customer base. The SunGard trade name has an indefinite life and is not subject to amortization; it, along with goodwill, will be reviewed at least annually for impairment.

ACQUISITIONS BY THE COMPANY

The Company seeks to acquire businesses that broaden its existing product lines and service offerings by adding complementary products and services offerings and by expanding its geographic reach. During the nine months ended September 30, 2005, the Company completed five acquisitions in its FS segment, two acquisitions in its HE/PS segment and one acquisition in its AS segment. Cash paid, net of cash acquired and subject to certain adjustments, was \$434 million, including \$363 million for the acquisitions of Inflow, Inc. and Vivista Holdings Limited.

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The following table lists the businesses the Company acquired since January 1, 2005:

Inflow, Inc.	1/4/2005	Hosting and managed services for information availability.
Protegent, Inc.	1/26/2005	Risk management solutions.
Vivista Holdings Limited	2/25/2005	Public safety and justice software solutions in the U.K.
Ensemble Technology (Pty) Ltd	2/28/2005	Professional services for the financial services industry in South Africa.
Integrity Treasury Solutions Limited	3/3/2005	Treasury management systems.
Recognition Research, Inc.	5/12/2005	Data-capture technology for the healthcare and financial services industries.
Understanding Systems, Inc.	7/25/2005	Graphical mapping solutions for the public sector.
Pyramid Digital Systems, LLC	8/17/2005	Software and solutions to the retirement plan industry.

In connection with seven previously acquired businesses, up to \$152 million could be paid as additional consideration, primarily over the next year depending on the future operating results of those businesses. The amount paid, if any, is recorded as additional goodwill at the time the actual performance is known and the amounts become due. As of and during the nine months ended September 30, 2005, there were no amounts earned or paid.

GOODWILL AND AMORTIZATION

Changes in total goodwill during the nine months ended September 30, 2005 follow (in thousands):

Predecessor	
Balance at December 31, 2004	\$ 1,824,217
Acquisitions by the Company from January 1, 2005 through August 10, 2005	231,236
Adjustments to previous acquisitions	(17,849)
Effect of foreign currency translation	(40,468)

Balance at August 10, 2005	\$ 1,997,136

Successor	
Acquisition of SunGard Data Systems Inc. by Solar Capital Corp.	\$ 7,262,334
Acquisitions by the Company from August 11, 2005 through September 30, 2005	5,288
Adjustments to previous acquisitions	1,230
Effect of foreign currency translation	(8,516)

Balance at September 30, 2005	\$ 7,260,336

The estimated amortization expense through 2009 has been updated to reflect the Transaction as well as acquisitions subsequent to August 10, 2005. Since the allocation of the Transaction purchase price is preliminary and subject to finalization of independent appraisals, the estimated annual amortization expense will continue to be updated as the appraisals are finalized. Based on preliminary valuation data and amounts recorded at September 30, 2005, total estimated amortization of all acquisition-related intangible assets during the period from August 11, 2005

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through December 31, 2005 and for each of the years ended December 31, 2006 to 2009 follows (in thousands):

August 11, 2005 through December 31, 2005	\$ 146,549
2006	376,630
2007	376,630
2008	376,630
2009	376,630

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The following unaudited pro forma results of operations (in thousands) assume that the Transaction and certain significant acquisitions and dispositions occurred on January 1, 2004 and were reflected in the Company's results from that date. The pro forma results include the 2005 acquisitions of Inflow, Inc., Vivista Holdings Limited, Integrity Treasury Solutions Limited, and Recognition Research, Inc., the 2004 acquisitions of FAME Information Services, Inc. (closed January 22, 2004), Systems & Computer Technology Corporation (closed February 12, 2004), Collegis, Inc. (closed March 4, 2004), and Open Software Solutions, Inc. (closed May 21, 2004), and the disposition of Brut LLC (closed September 7, 2004). This unaudited pro forma information should not be relied upon as necessarily being indicative of the historical results that would have been obtained if these acquisitions and disposition had actually occurred on that date, nor of the results that may be obtained in the future.

	Nine months ended September 30, 2004	Nine months ended September 30, 2005	Three months ended September 30, 2004	Three months ended September 30, 2005
Revenue	\$ 2,718,389	\$ 2,944,993	\$ 911,648	\$ 960,214
Net (loss) income	(58,912)	(200,392)	13,026	(129,016)

MERGER AND OTHER COSTS:

During the period from January 1, 2005 through August 10, 2005, the Company recorded merger costs of \$121 million (\$94 million after tax). These costs primarily include \$59 million of accounting, investment banking, legal and other costs associated with the Transaction and a non-cash charge for stock compensation of approximately \$60 million (\$39 million after tax) in the period ended August 10, 2005 resulting from the acceleration of stock options and restricted stock. During the period from August 11, 2005 through September 30, 2005, the Company recorded merger costs of \$19 million (\$13 million after tax) consisting primarily of payroll taxes and certain compensation expenses related to the Transaction.

In the first quarter of 2005, the Company recorded a one-time charge of \$12 million, included in cost of sales and direct operating expenses, related to the relocation of a leased availability services facility in North Bergen, New Jersey to an expanded facility in Carlstadt, New Jersey.

3. Stock-Based Compensation:**Post-Transaction**

In connection with the Transaction, the Parent Companies adopted a new equity-based management compensation plan, which authorizes equity awards to be granted for up to 60 million shares of Class A common stock and 7 million shares of Class L common stock of SunGard Capital Corp. and 2.5 million shares of preferred stock of SunGard Capital Corp. II. Under this plan, certain management and key employees were granted time-based options or a combination of time-based and performance-based options to purchase stock in the Parent Companies. The issued options are for equity units (Unit). Each Unit consists of an option to purchase 1.3 shares of Class A common stock and 0.1444 shares of Class L common stock of SunGard Capital Corp. and 0.05 shares of preferred stock of SunGard Capital Corp. II. The shares comprising a Unit

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are in the same proportion as the shares issued to the shareholders of the Parent Companies. Options are exercisable only as a Unit and the individual classes cannot be separately exercised.

As discussed in Note 2, options to purchase shares of the Predecessor held by certain members of management that were not exercised before closing of the Transaction were automatically converted into fully-vested continuation options to purchase 7.4 million Units having the same aggregate intrinsic value of \$100 million. The continuation options have an exercise price of \$4.50 and a weighted average remaining life of 5.5 years.

During the period ended September 30, 2005, the Parent Companies granted time-based and performance-based options to purchase approximately 12.5 million and 18.2 millions Units, respectively. Time-based options vest over the next five years as follows: 25% one year after date of grant, and 1/48 of the remaining balance each month thereafter for 48 months. Performance-based options vest upon the attainment of certain annual and cumulative earnings goals for the Company during the six-year period beginning January 1, 2005. Time-based and performance-based options can vest upon a change in control, subject to certain conditions, and expire ten years from the date of grant.

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As of the date of the Transaction, the Company adopted SFAS Number 123R (revised 2004), Share-Based Payment (SFAS 123R), 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.

Time-based and performance-based options granted in the period ended September 30, 2005 have an exercise price of \$18.00 per Unit and a fair value of \$10.54 per Unit based on the Black-Scholes option-pricing model using the following assumptions: expected term to exercise of 5.5 years; expected volatility of 62%; risk-free interest rate of 4.18%; and no dividend yield. Expected volatility is based primarily on a combination of the Company's historical volatility adjusted for its new leverage and estimates of implied volatility of the Company's peer group. The requisite service period is up to 5.4 years from the date of grant.

For the period ended September 30, 2005, the Company recognized non-cash stock compensation expense of \$8 million included in sales, marketing and administration expenses. The adoption of FAS 123R had no impact on the Company's cash flow from operations or financing activities. At September 30, 2005, there is approximately \$115 million of unearned non-cash stock-based compensation that the Company expects to recognize as expense over the next 5.25 years. For performance-based options, vesting, and therefore compensation expense, is estimated at the time that the achievement of the annual and cumulative earnings goals becomes probable. For time-based options, compensation expense is recorded on a straight-line basis over the requisite service period of five years. During the period ended September 30, 2005, there were options granted to purchase approximately 38.1 million Units, including continuation options, and no option exercises or cancellations. At September 30, 2005, no performance-based or time-based options are exercisable and all continuation options are exercisable.

Pre-Transaction stock-based compensation accounting

Prior to the closing of the Transaction, the Company applied APB 25 in accounting for its stock option and award plans. Accordingly, compensation expense has been recorded for its restricted stock awards and the Company recorded in merger costs a non-cash charge for stock compensation of approximately \$60 million (\$39 million after tax) in the period from July 1, 2005 to August 10, 2005 as a result of the acceleration of vesting of all options and restricted stock in connection with the Transaction (see Note 2). SFAS Number 123, Accounting for Stock-Based Compensation (SFAS 123), as amended by SFAS Number 148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement 123 changed the method for recognition of cost of stock option and award plans. Adoption of the cost recognition requirements under SFAS 123 was optional; however, the following supplemental information is provided (in thousands):

	Predecessor*			
	Nine months ended September 30, 2004	Period from January 1, 2005 through August 10, 2005	Three months ended September 30, 2004	Period from July 1, 2005 through August 10, 2005
Net income (loss), as reported (including stock compensation expense, net of tax, of \$363, \$36,565, \$118 and \$36,190, respectively)	\$ 341,762	\$ 145,752	\$ 153,537	\$ (42,665)
Additional stock compensation expenses under SFAS 123, net of tax	(70,751)	(134,845)	(30,473)	(102,069)
Pro forma net income (loss)	\$ 271,011	\$ 10,907	\$ 123,064	\$ (144,734)

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* At the date of Acquisition, the Company adopted FAS 123R. This disclosure is therefore not applicable for the period August 11, 2005 through September 30, 2005.

Table of Contents**4. Clearing Broker Assets and Liabilities:**

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

	<u>Predecessor</u>	<u>Successor</u>
	<u>December 31,</u>	<u>September 30,</u>
	<u>2004</u>	<u>2005</u>
Segregated customer cash and treasury bills	\$ 24,027	\$ 32,592
Securities owned	23,006	33,063
Securities borrowed	150,019	305,903
Receivables from customers and other	35,398	51,235
Clearing broker assets	\$ 232,450	\$ 422,793
Payables to customers	\$ 59,250	\$ 52,619
Securities loaned	117,816	321,200
Customer securities sold short, not yet purchased	12,589	27,828
Payable to brokers and dealers	19,075	10,219
Clearing broker liabilities	\$ 208,730	\$ 411,866

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.

5. Debt:

Debt consisted of the following at December 31, 2004 and September 30, 2005 (in thousands):

	<u>Predecessor</u>	<u>Successor</u>
	<u>December 31,</u>	<u>September 30,</u>
	<u>2004</u>	<u>2005</u>
Secured revolving credit facility, effective interest rate of 6.32% (A)	\$	\$ 100,000
Secured term loan facilities, effective interest rate of 6.24% (A)		3,985,205
Senior Notes due 2009 at 3.75%, net of discount of \$22,189 (B)	250,000	227,811
Senior Notes due 2014 at 4.875%, net of discount of \$34,423 (B)	250,000	215,577

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Senior Notes due 2013 at 9.125% (C)		1,600,000
Senior Subordinated Notes due 2015 at 10.25% (C)		1,000,000
Senior Notes due 2013 at LIBOR plus 4.5% (8.5248% at September 30, 2005) (C)		400,000
Accounts receivable securitization facility due 2011 at LIBOR plus 1.8% (3.6% at September 30, 2005) (D)		187,060
Other, primarily acquisition purchase price and capital lease obligations	54,378	14,516
	<u>554,378</u>	<u>7,730,169</u>
Short-term borrowings and current portion of long-term debt	(45,332)	(49,614)
Long-term debt	<u>\$ 509,046</u>	<u>\$ 7,680,555</u>

On August 11, 2005, in connection with the Transaction, the Company (i) entered into a new \$4.0 billion senior secured credit facility, consisting of a \$3.69 billion term loan facility with SunGard Data Systems Inc. as the borrower, a \$315 million-equivalent term loan facility with a U.K. subsidiary as the borrower (\$165 million of which is denominated in euros and \$150 million of which is denominated in pounds sterling), and a \$1.0 billion revolving credit facility (\$900 million available as of September 30, 2005), (ii) issued \$3.0 billion aggregate principal amount of senior notes and senior subordinated notes and (iii) entered into receivables securitization facilities totaling \$375 million.

The senior secured credit facilities and the indentures governing the senior notes and senior subordinated notes issued in connection with the Transaction limit the Company's (and most or all of its subsidiaries') ability to incur additional

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indebtedness, pay dividends on or make other distributions or repurchase capital stock, make certain investments, enter into certain types of transactions with affiliates, use assets as security in other transactions, and sell certain assets or merge with or into other companies. In addition, under the senior secured credit agreement, the Company will be required to satisfy and maintain specified financial ratios and other financial condition tests.

(A) Senior Secured Credit Facilities

Borrowings under the senior secured credit facilities bear interest at a rate equal to an applicable margin plus, at the Company's option, either (a) a base rate determined by reference to the higher of (1) the prime rate of JP Morgan Chase Bank, N.A. and (2) the federal funds rate plus 1/2 of 1% or (b) a LIBOR rate determined by reference to the costs of funds for deposits in the currency of such borrowing for the interest period relevant to such borrowing adjusted for certain additional costs. The applicable margin for borrowings under the revolving credit facility may be reduced subject to attaining certain leverage ratios. In addition to paying interest on outstanding principal under the senior secured credit facilities, the Company pays a commitment fee to the lenders under the revolving credit facility in respect of the unutilized commitments thereunder. The initial commitment fee rate is 0.50% per annum. The commitment fee rate may be reduced subject to attaining certain leverage ratios.

All obligations under the senior secured credit agreement are unconditionally guaranteed by SunGard Holdco LLC and, subject to certain exceptions, by all domestic wholly owned subsidiaries, referred to, collectively, as U.S. Guarantors. In addition, the borrowings of U.K. subsidiary borrowers under the revolving credit facility are unconditionally guaranteed by certain wholly owned U.K. subsidiaries.

(B) Senior Notes due 2009 and 2014

On January 15, 2004, the Company issued \$500 million of senior unsecured notes, \$250 million of 3.75% notes due 2009 and \$250 million of 4.875% notes due 2014, which are subject to certain standard covenants. Upon completion of the Transaction and to the extent required by their indentures, these senior notes became collateralized on an equal and ratable basis with loans under the senior secured credit facilities and are guaranteed by all subsidiaries that guarantee the senior notes due 2013 and senior subordinated notes due 2015. The senior notes due 2009 and 2014 are recorded at \$443 million as of September 30, 2005 as a result of fair value adjustments related to purchase accounting. The discount of \$57 million will be amortized and added to the recorded amounts over the remaining periods to maturity.

(C) Senior Notes due 2013 and Senior Subordinated Notes due 2015

The senior notes due 2013 are senior unsecured obligations that rank senior in right of payment to future debt and other obligations that are, by their terms, expressly subordinated in right of payment to the senior notes, including the senior subordinated notes. The senior notes (i) rank equally in right of payment to all existing and future senior debt and other obligations that are not, by their terms, expressly subordinated in right of payment to the senior notes, (ii) are effectively subordinated in right of payment to all existing and future secured debt to the extent of the value of the assets securing such debt, and (iii) are structurally subordinated to all obligations of each subsidiary that is not a guarantor of the senior notes.

The senior subordinated notes due 2015 are unsecured senior subordinated obligations that are subordinated in right of payment to existing and future senior debt, including the senior secured credit facilities, the senior notes due 2009 and 2014 and the senior notes due 2013. The senior

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subordinated notes (i) rank equally in right of payment to all future senior subordinated debt, (ii) are effectively subordinated in right of payment to all existing and future secured debt to the extent of the value of the assets securing such debt, (iii) are structurally subordinated to all obligations of each subsidiary that is not a guarantor of the senior subordinated notes, and (iv) rank senior in right of payment to all future debt and other obligations that are, by their terms, expressly subordinated in right of payment to the senior subordinated notes.

The senior notes due 2013 and senior subordinated notes due 2015 are redeemable in whole or in part, at the option of the Company, at any time at varying redemption prices that generally include premiums, which are defined in the applicable indentures. In addition, upon a change of control, the Company is required to make an offer to redeem all of the senior notes and senior subordinated notes at a redemption price equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest.

(D) Receivables Securitization Facilities

In August 2005, certain domestic subsidiaries entered into two receivables facilities, a transitional facility and a long-term facility (the Facilities). The Facilities provide the Company funding of up to \$375 million by allowing it to sell, on a revolving basis, an undivided interest in eligible receivables, subject to the satisfaction of other customary conditions, for a period of up to six years following the Transaction.

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Domestic subsidiaries that are not yet eligible to participate in the long-term facility participate in the transitional facility. Subsidiaries that participate in the transitional facility transfer their eligible receivables to third party conduits through a wholly owned bankruptcy remote special purpose entity that is consolidated for financial reporting purposes. The funding under the transitional facility is provided by the lenders under the Company's senior secured credit facilities. The Company must use reasonable commercial efforts to cause the participating subsidiaries to join the long-term facility within 150 days after the Transaction. If this does not occur, the lenders will have the right to refinance the transitional facility on terms no less favorable to the Company than the terms of the senior secured term loan facility. Sales of receivables under the transitional facility cannot be accounted for as sales under the provisions of FASB Statement No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* (SFAS 140). Accordingly, these receivables, totaling \$281 million, are included in trade receivables and secure the corresponding borrowings, which are included in long-term debt in the accompanying consolidated balance sheet as of September 30, 2005.

Under the long-term facility, eligible receivables are sold to third-party conduits through a wholly owned bankruptcy remote special purpose entity that is not consolidated for financial reporting purposes. The Company continues to service the receivables and charges a monthly servicing fee at market rates. The third-party conduits are sponsored by the lenders under the Company's senior secured credit facilities. Additional subsidiaries of the Company may become parties to the long-term facility, subject to the satisfaction of specified conditions including the completion of satisfactory due diligence. Sales of receivables under the long-term facility qualify as sales under the provisions of SFAS 140. Accordingly, these receivables, totaling \$303 million net of applicable allowances, and the corresponding borrowings, totaling \$139 million, are excluded from the accompanying consolidated balance sheet as of September 30, 2005. The Company's retained interest in receivables sold as of September 30, 2005 is \$151 million. Expenses associated with the long-term facility totaled \$7.6 million for the period ended September 30, 2005, of which \$4 million related to the loss on sale of the receivables and discount on retained interests (net of the related servicing revenue) is recorded in other income (expense) and the remainder, representing facility and professional fees, are recorded in merger and other costs in the accompanying consolidated statements of operations. The gain or loss on sale of receivables is determined at the date of transfer based upon the fair value of the assets sold and the interests retained. The Company estimates fair value based on the present value of expected cash flows. The collection period and discount rate (prime rate at September 30, 2005) are the key assumptions used in this estimate. At September 30, 2005, neither a 10% nor a 20% adverse change in the assumed collection period or assumed discount rate would have a material impact on the Company's financial position or results of operations.

At September 30, 2005, annual maturities of long-term debt during the next five years and thereafter are as follows (in thousands):

2006	\$ 49,614
2007	40,029
2008	40,029
2009	267,840
2010	40,029
Thereafter	7,292,628

Table of Contents**6. Comprehensive Income (Loss):**

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

	Predecessor		Successor
	Nine months ended September 30, 2004	Period from January 1, 2005 through August 10, 2005	Period from August 11, 2005 through September 30, 2005
Net income (loss)	\$ 341,762	\$ 145,752	\$ (23,071)
Foreign currency translation gains (losses)	6,166	(68,767)	(11,517)
Comprehensive income (loss)	<u>\$ 347,928</u>	<u>\$ 76,985</u>	<u>\$ (34,588)</u>

	Predecessor		Successor
	Three months ended September 30, 2004	Period from July 1, 2005 through August 10, 2005	Period from August 11, 2005 through September 30, 2005
Net income (loss)	\$ 153,537	\$ (42,665)	\$ (23,071)
Foreign currency translation gains (losses)	4,093	5,180	(11,517)
Comprehensive income (loss)	<u>\$ 157,630</u>	<u>\$ (37,485)</u>	<u>\$ (34,588)</u>

Table of Contents**7. Segment Information:**

The Company has three segments: FS and HE/PS, which together form the Company's Software & Processing Solutions business, and AS. Effective January 1, 2005, the Company reclassified one data center facility from AS to FS. This change has been reflected for all periods presented. The operating results for each segment follow (in thousands):

	Predecessor			Successor	
	Nine months ended September 30, 2004	Three months ended September 30, 2004	Period from January 1, 2005 through August 10, 2005	Period from July 1, 2005 through August 10, 2005	Period from August 11, 2005 through September 30, 2005
Revenue:					
Financial systems	\$ 1,398,085	\$ 460,734	\$ 1,120,044	\$ 192,683	\$ 256,085
Higher education and public sector systems	379,618	150,886	471,171	82,890	110,302
Software & processing solutions	1,777,703	611,620	1,591,215	275,573	366,387
Availability services	861,003	287,718	780,126	141,855	181,406
	\$ 2,638,706	\$ 899,338	\$ 2,371,341	\$ 417,428	\$ 547,793
Income (loss) from operations:					
Financial systems	\$ 230,155	\$ 81,093	\$ 183,143	\$ 24,228	\$ 23,890
Higher education and public sector systems	62,127	29,275	75,683	9,729	14,605
Software & processing solutions	292,282	110,368	258,826	33,957	38,495
Availability services	257,146	89,676	197,411	38,642	45,369
Corporate administration	(38,223)	(13,143)	(39,613)	(6,892)	(19,531)
Merger and other costs	(3,076)	(3,500)	(121,013)	(102,708)	(18,443)
	\$ 508,129	\$ 183,401	\$ 295,611	\$ (37,001)	\$ 45,890
Depreciation and amortization:					
Financial systems	\$ 50,629	\$ 16,603	\$ 38,915	\$ 6,731	\$ 8,627
Higher education and public sector systems	8,059	2,983	8,600	1,749	2,148
Software & processing solutions	58,688	19,586	47,515	8,480	10,775
Availability services	102,771	34,687	93,707	17,492	21,694
Corporate administration	1,230	406	188	34	47
	\$ 162,689	\$ 54,679	\$ 141,410	\$ 26,006	\$ 32,516
Amortization of acquisition-related intangible assets:					
Financial systems	\$ 48,000	\$ 15,540	\$ 39,363	\$ 7,086	\$ 28,538
Higher education and public sector systems	26,003	10,384	29,816	5,765	9,364

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Software & processing solutions	74,003	25,924	69,179	12,851	37,902
Availability services	15,488	5,141	14,913	2,635	13,285
Corporate administration					
	\$ 89,491	\$ 31,065	\$ 84,092	\$ 15,486	\$ 51,187
Cash paid for property and equipment:					
Financial systems	\$ 25,284	\$ 7,791	\$ 29,175	\$ 5,015	\$ 5,880
Higher education and public sector systems	3,337	2,357	11,435	2,039	2,763
Software & processing solutions	28,621	10,148	40,610	7,054	8,643
Availability services	113,508	34,203	90,762	17,874	37,327
Corporate administration	271	155	56	42	51
	\$ 142,400	\$ 44,506	\$ 131,428	\$ 24,970	\$ 46,021

8. Related Party Transactions

In connection with the Transaction, the Company and its Parent Companies paid the Sponsors \$96 million in fees and expenses for financial and structural advice and analysis as well as assistance with due diligence investigations and debt financing negotiations. This amount has been included in the overall purchase price of the Transaction.

The Company and its Parent Companies have agreed to pay the Sponsors management fees based on 1% of quarterly Adjusted EBITDA, as defined below, in connection with planning, strategy, oversight and support to management.

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These management fees are payable quarterly in arrears. During the period ended September 30, 2005, the Company recorded \$3 million in management fees, included in sales, marketing and administration expenses in the statement of operations and other accrued expenses on the balance sheet at September 30, 2005.

In connection with the Transaction, SunGard Capital Corp. received a \$16 million promissory note from the Company's Chief Executive Officer (CEO) in payment for 1.6 million shares of Class A common stock and 0.2 million shares of Class L common stock. Also in connection with the Transaction, SunGard Capital Corp. II received a \$6 million promissory note (together with the SunGard Capital Corp. note, the Notes) from the CEO in payment for 61 thousand shares of preferred stock. The Notes bear interest at a floating rate equal to LIBOR plus 2.5% divided by 0.84725% per annum and are payable on the last day of each calendar quarter in arrears. Principal payments are due upon written demand by the Parent Companies. The Notes are fully recourse notes and are secured by a pledge of the CEO's shares of the Parent Companies. No payments were made as of September 30, 2005. SunGard Data Systems Inc. is not a party to these arrangements, which were entered into prior to the consummation of the Transaction.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The following discussion and analysis supplement the management's discussion and analysis in the Predecessor's Annual Report on Form 10-K for the year ended December 31, 2004 and presume that readers have read or have access to the discussion and analysis in our Annual Report. The following discussion and analysis includes historical and certain forward-looking information that should be read together with the accompanying Consolidated Financial Statements, related footnotes, and the discussion below of certain risks and uncertainties that could cause future operating results to differ materially from historical results or from the expected results indicated by forward-looking statements.

SunGard Data Systems Inc. was acquired on August 11, 2005 through a merger transaction with Solar Capital Corp., a Delaware corporation formed by 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 acquisition was accomplished through the merger of Solar Capital Corp. into SunGard Data Systems Inc. with SunGard Data Systems Inc. being the surviving company (the Transaction).

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

Although SunGard Data Systems Inc. continued as the same legal entity after the Transaction, the accompanying consolidated statements of operations, cash flows and stockholders' 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 Data Systems Inc. and subsidiaries for both the Predecessor and Successor periods. We have prepared our discussion of the results of operations by comparing the mathematical combination of the Successor and Predecessor periods in the nine months and three months ended September 30, 2005 to the nine and three month periods ended September 30, 2004. Although this presentation does not comply with generally accepted accounting principles (GAAP), we believe that it provides a meaningful method of comparison. The combined operating results have not been prepared as pro forma results under applicable regulations and may not reflect the actual results we would have achieved absent the Transaction and may not be predictive of future results of operations.

Table of Contents**RESULTS OF OPERATIONS:****Nine Months Ended September 30, 2005 Compared to the Nine Months Ended September 30, 2004**

The following tables set forth, for the periods indicated, certain amounts included in our Consolidated Statements of Operations and the relative percentage that those amounts represent to consolidated revenue (unless otherwise indicated). All percentages are calculated using actual amounts rounded to the nearest one-hundred thousand and are rounded to the nearest whole percentage.

(in millions)	Predecessor		Successor		Combined ⁽¹⁾	
	Period from January 1, 2005 through August 10, 2005		Period from August 11, 2005 through September 30, 2005		Nine months ended September 30, 2005	
	percent of revenue				percent of revenue	
Revenue						
Financial systems (FS)	\$ 1,398.1	53%	\$ 1,120.0	\$ 256.1	\$ 1,376.1	47%
Higher education and public sector systems (HE/PS)	379.6	14%	471.2	110.3	581.5	20%
Software & processing solutions	1,777.7	67%	1,591.2	366.4	1,957.6	67%
Availability services (AS)	861.0	33%	780.1	181.4	961.5	33%
	<u>\$ 2,638.7</u>	<u>100%</u>	<u>\$ 2,371.3</u>	<u>\$ 547.8</u>	<u>\$ 2,919.1</u>	<u>100%</u>
Costs and Expenses						
Cost of sales and direct operating	\$ 1,216.8	46%	\$ 1,119.5	\$ 246.5	\$ 1,366.0	47%
Sales, marketing and administration	481.0	18%	456.0	116.9	572.9	20%
Product development	177.5	7%	153.7	36.4	190.1	7%
Depreciation and amortization	162.7	6%	141.4	32.5	173.9	6%
Amortization of acquisition- related intangible assets	89.5	3%	84.1	51.2	135.3	5%
Merger and other costs	3.1	%	121.0	18.4	139.4	5%
	<u>\$ 2,130.6</u>	<u>81 %</u>	<u>\$ 2,075.7</u>	<u>\$ 501.9</u>	<u>\$ 2,577.6</u>	<u>88%</u>
Operating Income						
Financial systems ⁽²⁾	\$ 230.2	16%	\$ 183.1	\$ 23.9	\$ 207.0	15%
Higher education and public sector systems ⁽²⁾	62.1	16%	75.7	14.6	90.3	16%
Software & processing solutions ⁽²⁾	292.3	16%	258.8	38.5	297.3	15%
Availability services ⁽²⁾	257.1	30%	197.4	45.4	242.8	25%

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Corporate administration	(38.2)	(1)%	(39.6)	(19.6)	(59.2)	(2)%
Merger and other costs	(3.1)	%	(121.0)	(18.4)	(139.4)	(5)%
	<u> </u>		<u> </u>	<u> </u>	<u> </u>	
	\$ 508.1	19 %	\$ 295.6	\$ 45.9	\$ 341.5	12%
	<u> </u>		<u> </u>	<u> </u>	<u> </u>	

- (1) As described above, our combined results for the nine months ended September 30, 2005 represent the sum of the amounts for the Predecessor period from January 1, 2005 through August 10, 2005 and for the Successor period from August 11, 2005 through September 30, 2005. This combination does not comply with GAAP or with the rules for pro forma presentation, but is presented because we believe it enables a meaningful comparison of our results.
- (2) Percent of revenue is calculated as a percent of revenue from FS, HE/PS, Software & Processing Solutions, and AS, respectively.

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The following table sets forth, for the periods indicated, certain supplemental revenue data and the relative percentage that those amounts represent to total revenue. All percentages are calculated using actual amounts rounded to the nearest one-hundred thousand and are rounded to the nearest whole percentage.

(in millions)	Predecessor		Successor		Combined ⁽¹⁾	
	Nine months ended September 30,		Period from January 1, 2005 through August 10,	Period from August 11, 2005 through September 30,	Nine months ended September 30,	
	2004		2005	2005	2005	
	percent of revenue				percent of revenue	
Financial Systems						
Services	\$ 1,223.8	46%	\$ 967.7	\$ 221.7	\$ 1,189.4	41%
License and resale fees	115.6	4%	99.1	23.0	122.1	4%
Total products and services	1,339.4	51%	1,066.8	244.7	1,311.5	45%
Reimbursed expenses	58.7	2%	53.2	11.4	64.6	2%
	<u>\$ 1,398.1</u>	53%	<u>\$ 1,120.0</u>	<u>\$ 256.1</u>	<u>\$ 1,376.1</u>	47%
Higher Education and Public Sector Systems						
Services	\$ 302.3	11%	\$ 393.6	\$ 90.4	\$ 484.0	17%
License and resale fees	69.1	3%	69.9	18.2	88.1	3%
Total products and services	371.4	14%	463.5	108.6	572.1	20%
Reimbursed expenses	8.2	%	7.7	1.7	9.4	%
	<u>\$ 379.6</u>	14%	<u>\$ 471.2</u>	<u>\$ 110.3</u>	<u>\$ 581.5</u>	20%
Software & Processing Solutions						
Services	\$ 1,526.1	58%	\$ 1,361.3	\$ 312.1	\$ 1,673.4	57%
License and resale fees	184.7	7%	169.0	41.2	210.2	7%
Total products and services	1,710.8	65%	1,530.3	353.3	1,883.6	65%
Reimbursed expenses	66.9	3%	60.9	13.1	74.0	3%
	<u>\$ 1,777.7</u>	67%	<u>\$ 1,591.2</u>	<u>\$ 366.4</u>	<u>\$ 1,957.6</u>	67%
Availability Services						
Services	\$ 838.1	32%	\$ 764.3	\$ 178.6	\$ 942.9	32%
License and resale fees	16.3	1%	10.5	1.1	11.6	%
Total products and services	854.4	32%	774.8	179.7	954.5	33%
Reimbursed expenses	6.6	%	5.3	1.7	7.0	%
	<u>\$ 861.0</u>	33%	<u>\$ 780.1</u>	<u>\$ 181.4</u>	<u>\$ 961.5</u>	33%
Total Revenue						

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Services	\$ 2,364.2	90%	\$ 2,125.6	\$ 490.7	\$ 2,616.3	90%
License and resale fees	201.0	8%	179.5	42.3	221.8	8%
	<u> </u>		<u> </u>	<u> </u>	<u> </u>	
Total products and services	2,565.2	97%	2,305.1	533.0	2,838.1	97%
Reimbursed expenses	73.5	3%	66.2	14.8	81.0	3%
	<u> </u>		<u> </u>	<u> </u>	<u> </u>	
	<u>\$ 2,638.7</u>	100%	<u>\$ 2,371.3</u>	<u>\$ 547.8</u>	<u>\$ 2,919.1</u>	100%

- (1) As described above, our combined results for the nine months ended September 30, 2005 represent the sum of the amounts for the Predecessor period from January 1, 2005 through August 10, 2005 and for the Successor period from August 11, 2005 through September 30, 2005. This combination does not comply with GAAP or with the rules for pro forma presentation, but is presented because we believe it enables a meaningful comparison of our results.

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INCOME FROM OPERATIONS:

Our total operating margin was 11.7% for the nine months ended September 30, 2005 compared to 19.3% for the nine months ended September 30, 2004, due primarily to a \$136 million increase in merger costs. The negative impact on total operating margin of the increase in merger costs and purchase accounting adjustments resulting from the Transaction was 570 basis points (one hundred basis points equals one percentage point). The purchase accounting adjustments, which are preliminary, included incremental amortization of acquisition-related intangible assets of \$32 million and the adjustment of deferred revenue to fair value at the date of the Transaction (the deferred revenue adjustment) of \$12 million. In addition, \$23 million in the aggregate related to the relocation of an AS facility, stock-based compensation and other expenses caused an 80 basis point decline in the total operating margin. The balance of the decline in total operating margin is the result of recently acquired businesses.

Financial Systems:

The FS operating margin was 15.0% for the nine months ended September 30, 2005 compared to 16.5% for the nine months ended September 30, 2004. The negative impact on the FS margin of the purchase accounting adjustments resulting from the Transaction was 160 basis points, including incremental amortization (\$20 million) and the deferred revenue adjustment (\$3 million).

Higher Education and Public Sector Systems:

The HE/PS operating margin was 15.5% and 16.4% in each of the nine months ended September 30, 2005 and 2004, respectively, due primarily to the negative impact on margins of a business acquired in February 2005. The impact of the purchase accounting adjustments resulting from the Transaction was immaterial.

Availability Services:

The AS operating margin was 25.3% for the nine months ended September 30, 2005 compared to 29.9% for the nine months ended September 30, 2004. The negative impact on the AS margin of the purchase accounting adjustments resulting from the Transaction was 150 basis points, including incremental amortization (\$10 million) and the deferred revenue adjustment (\$6 million). The AS margin decreased by 300 basis points due to the lower margin associated with a business acquired in January 2005 as well as a one-time charge related to the relocation of an AS facility.

REVENUE:

Total revenue was \$2.92 billion for the nine months ended September 30, 2005 compared to \$2.64 billion for the nine months ended September 30, 2004. The increase in total revenue in 2005 was due to \$273 million from acquired businesses offset in part by a decrease of \$129 million due to the sale of Brut LLC in September 2004 and the deferred revenue adjustment of \$12 million. Internal revenue is defined as revenue from businesses owned for at least one year and excludes the deferred revenue adjustment and revenue from Brut LLC. When assessing our financial

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results, we focus on growth in internal revenue because overall revenue growth is affected by the timing and magnitude of acquisitions and dispositions and by purchase price accounting adjustments resulting from the Transaction. Internal revenue grew by approximately 6% for the nine months ended September 30, 2005 compared to approximately 2% in 2004. The increase in internal revenue in 2005 reflects improvements in all three segments, primarily in FS and HE/PS.

Services revenue was \$2.62 billion for the nine months ended September 30, 2005 compared to \$2.36 billion for the nine months ended September 30, 2004. The increase of \$252 million in 2005 was due primarily to the impact of acquired businesses, offset in part by the sale of Brut LLC, and to internal revenue growth in FS.

Revenue from license and resale fees was \$222 million and \$201 million for the nine months ended September 30, 2005 and 2004, respectively, and includes software license revenue of \$164 million and \$152 million, respectively. The increases were due primarily to acquired businesses. At December 31, 2004, we had software license backlog of \$19 million, most of which was recognized as revenue in the first quarter of 2005.

Financial Systems:

FS revenue was \$1.38 billion for the nine months ended September 30, 2005 compared to \$1.40 billion for the nine months ended September 30, 2004. Services revenue decreased \$34 million and license and resale fees increased \$7 million. The net decreases in total revenue and services revenue reflect the impact of the sale of Brut LLC which had \$129 million in total revenue and \$110 million in services revenue in the nine months ended September 30, 2004. FS internal revenue increased approximately 5% in 2005 and 1% in 2004, reflecting broad-based improvements across the segment, especially in brokerage and trading systems and benefit, insurance and investor accounting systems.

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Higher Education and Public Sector Systems:

HE/PS revenue was \$581 million for the nine months ended September 30, 2005 compared to \$380 million for the nine months ended September 30, 2004. Services revenue increased \$182 million and license and resale fees increased \$19 million due to recently acquired businesses and to internal revenue growth of 11%.

Availability Services:

AS revenue was \$962 million for the nine months ended September 30, 2005 compared to \$861 million for the nine months ended September 30, 2004. The increase was due primarily to a business acquired in January 2005. AS internal revenue increased approximately 4% in 2005 and 2% in 2004 due primarily to growth in North America.

COSTS AND EXPENSES:

Cost of sales and direct operating expenses as a percentage of total revenue was 47% for the nine months ended September 30, 2005 compared to 46% for the nine months ended September 30, 2004. The increase of \$149 million was due primarily to acquired businesses, reimbursable clearing broker costs, and a one-time charge in the first quarter of 2005 of \$12 million related to the relocation of an AS facility, offset in part by a decrease in expenses due to the sale of Brut LLC.

Sales, marketing and administration expenses were 20% of total revenue for the nine months ended September 30, 2005 compared to 18% for the nine months ended September 30, 2004. The increase of \$92 million was due primarily to acquired businesses, growth in the global account management program and a non-cash charge of approximately \$8 million for stock-based compensation (see Note 3 of Notes to Consolidated Condensed Financial Statements).

Because AS product development costs are insignificant, it is more meaningful to measure product development expense as a percentage of revenue from software and processing solutions. For the nine months ended September 30, 2005 and 2004, software development expenses were 10% of revenue from software and processing solutions in each period.

Depreciation and amortization was consistent as a percentage of total revenue at 6% for the nine months ended September 30, 2005 and 2004 but decreased \$11 million in 2005 due primarily to a decrease in AS depreciation offset in part by depreciation from acquired businesses.

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Amortization of acquisition-related intangible assets was 5% of total revenue for the nine months ended September 30, 2005 compared to 3% for the nine months ended September 30, 2004. Amortization of acquisition-related intangible assets increased \$46 million in 2005 due to the impact of the Transaction as well as recent acquisitions made by the Company.

Interest income was \$11 million for the nine months ended September 30, 2005 compared to \$5 million for the nine months ended September 30, 2004. The increase was due primarily to interest earned on higher average invested balances. Interest expense was \$105 million for the nine months ended September 30, 2005 compared to \$22 million for the nine months ended September 30, 2004. The increase was due to the \$7.3 billion increase in debt incurred in connection with the Transaction.

Other income (expense) decreased \$82 million in the nine months ended September 30, 2005 due to the gain associated with the sale of Brut LLC in September 2004.

The effective tax rate was 49% in the period from January 1, 2005 through August 10, 2005 compared to 40% for the nine months ended September 30, 2004. The higher effective tax rate in the period from January 1, 2005 through August 10, 2005 was due to non-deductible merger costs and, to a lesser extent, repatriation of undistributed earnings of foreign subsidiaries under the American Jobs Creation Act of 2004.

For the Three Months Ended September 30, 2005 Compared to the Three Months Ended September 30, 2004

The following table sets forth, for the periods indicated, certain amounts included in our Consolidated Statements of Income and the relative percentage that those amounts represent to consolidated revenue (unless otherwise indicated). All percentages are calculated using actual amounts rounded to the nearest one-hundred thousand and are rounded to the nearest whole percentage.

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	Predecessor		Successor		Combined ⁽¹⁾	
			Period from July 1,		Three months ended	
	Three months ended September 30,		2005 through August 10,		September 30,	
	2004		2005		2005	
(in millions)	percent of revenue				percent of revenue	
Revenue						
Financial systems (FS)	\$ 460.7	51%	\$ 192.7	\$ 256.1	\$ 448.8	46%
Higher education and public sector systems (HE/PS)	150.9	17%	82.9	110.3	193.2	20%
Software & processing solutions	611.6	68%	275.6	366.4	642.0	67%
Availability services (AS)	287.7	32%	141.8	181.4	323.2	33%
	<u>\$ 899.3</u>	100%	<u>\$ 417.4</u>	<u>\$ 547.8</u>	<u>\$ 965.2</u>	100%
Costs and Expenses						
Cost of sales and direct operating	\$ 410.4	46%	\$ 205.5	\$ 246.5	\$ 452.0	47%
Sales, marketing and administration	158.5	18%	75.6	116.9	192.5	20%
Product development	57.7	6%	29.1	36.4	65.5	7%
Depreciation and amortization	54.7	6%	26.0	32.5	58.5	6%
Amortization of acquisition- related intangible assets	31.1	3%	15.5	51.2	66.7	7%
Merger and other costs	3.5	%	102.7	18.4	121.1	13%
	<u>\$ 715.9</u>	80%	<u>\$ 454.4</u>	<u>\$ 501.9</u>	<u>\$ 956.3</u>	99%
Operating Income						
Financial systems ⁽²⁾	\$ 81.1	18%	\$ 24.2	\$ 23.9	\$ 48.1	11%
Higher education and public sector systems ⁽²⁾	29.3	19%	9.8	14.6	24.4	13%
Software & processing solutions ⁽²⁾	110.4	18%	34.0	38.5	72.5	11%
Availability services ⁽²⁾	89.6	31%	38.6	45.4	84.0	26%
Corporate administration	(13.1)	(1)%	(6.9)	(19.6)	(26.5)	(3)%
Merger and other costs	(3.5)	%	(102.7)	(18.4)	(121.1)	(13)%
	<u>\$ 183.4</u>	20%	<u>\$ (37.0)</u>	<u>\$ 45.9</u>	<u>\$ 8.9</u>	1%

(1) As described above, our combined results for the three months ended September 30, 2005 represent the sum of the amounts for the Predecessor period from July 1, 2005 through August 10, 2005 and for the Successor period from August 11, 2005 through September 30, 2005. This combination does not comply with GAAP or with the rules for pro forma presentation, but is presented because we believe it enables a meaningful comparison of our results.

(2) Percent of revenue is calculated as a percent of revenue from FS, HE/PS, Software & Processing Solutions, and AS, respectively.

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The following table sets forth, for the periods indicated, certain supplemental revenue data and the relative percentage that those amounts represent to total revenue. All percentages are calculated using actual amounts rounded to the nearest one-hundred thousand and are rounded to the nearest whole percentage.

(in millions)	Predecessor		Successor		Combined ⁽¹⁾	
	Three months ended September 30, 2004	percent of revenue	Period from July 1,	Period from August 11, 2005	Three months ended September 30, 2005	percent of revenue
			2005 through August 10, 2005	through September 30, 2005		
Financial Systems						
Services	\$ 400.9	45%	\$ 174.0	\$ 221.7	\$ 395.7	41%
License and resale fees	41.3	5%	9.5	23.0	32.5	3%
Total products and services	442.2	49%	183.5	244.7	428.2	44%
Reimbursed expenses	18.5	2%	9.2	11.4	20.6	2%
	<u>\$ 460.7</u>	<u>51%</u>	<u>\$ 192.7</u>	<u>\$ 256.1</u>	<u>\$ 448.8</u>	<u>46%</u>
Higher Education and Public Sector Systems						
Services	\$ 117.5	13%	\$ 75.1	\$ 90.4	\$ 165.5	17%
License and resale fees	30.4	3%	6.3	18.2	24.5	3%
Total products and services	147.9	16%	81.4	108.6	190.0	20%
Reimbursed expenses	3.0	%	1.5	1.7	3.2	%
	<u>\$ 150.9</u>	<u>17%</u>	<u>\$ 82.9</u>	<u>\$ 110.3</u>	<u>\$ 193.2</u>	<u>20%</u>
Software & Processing Solutions						
Services	\$ 518.4	58%	\$ 249.1	\$ 312.1	\$ 561.2	58%
License and resale fees	71.7	8%	15.8	41.2	57.0	6%
Total products and services	590.1	66%	264.9	353.3	618.2	64%
Reimbursed expenses	21.5	2%	10.7	13.1	23.8	2%
	<u>\$ 611.6</u>	<u>68%</u>	<u>\$ 275.6</u>	<u>\$ 366.4</u>	<u>\$ 642.0</u>	<u>67%</u>
Availability Services						
Services	\$ 281.5	31%	\$ 139.4	\$ 178.6	\$ 318.0	33%
License and resale fees	3.8	%	1.7	1.1	2.8	%
Total products and services	285.3	32%	141.1	179.7	320.8	33%
Reimbursed expenses	2.4	%	0.7	1.7	2.4	%
	<u>\$ 287.7</u>	<u>32%</u>	<u>\$ 141.8</u>	<u>\$ 181.4</u>	<u>\$ 323.2</u>	<u>33%</u>
Total Revenue						

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Services	\$ 799.9	89%	\$ 388.5	\$ 490.7	\$ 879.2	91%
License and resale fees	75.5	8%	17.5	42.3	59.8	6%
	<u> </u>		<u> </u>	<u> </u>	<u> </u>	
Total products and services	875.4	97%	406.0	533.0	939.0	97%
Reimbursed expenses	23.9	3%	11.4	14.8	26.2	3%
	<u> </u>		<u> </u>	<u> </u>	<u> </u>	
	\$ 899.3	100%	\$ 417.4	\$ 547.8	\$ 965.2	100%
	<u> </u>		<u> </u>	<u> </u>	<u> </u>	

- (1) As described above, our combined results for the three months ended September 30, 2005 represent the sum of the amounts for the Predecessor period from July 1, 2005 through August 10, 2005 and for the Successor period from August 11, 2005 through September 30, 2005. This combination does not comply with GAAP or with the rules for pro forma presentation, but is presented because we believe it enables a meaningful comparison of our results.

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INCOME FROM OPERATIONS:

Our total operating margin was 0.9% for the three months ended September 30, 2005 compared to 20.4% for the three months ended September 30, 2004 (a 1,950 basis point change), due primarily to a \$118 million increase in merger costs. The negative impact on total operating margin of the increase in merger costs and purchase accounting adjustments resulting from the Transaction was 1,530 basis points. The purchase accounting adjustments, which are preliminary, included incremental amortization of acquisition-related intangible assets of \$32 million and the deferred revenue adjustment of \$12 million. A \$15 million decrease in license fee revenue and \$12 million in stock-based compensation and management fees payable to the Sponsors caused a 210 basis point decline in the total operating margin. In addition, growth in the global account management program and other corporate costs caused a 100 basis point decline in the total operating margin.

Financial Systems:

The FS operating margin was 10.7% for the three months ended September 30, 2005 compared to 17.6% for the three months ended September 30, 2004. The negative impact on the FS margin of the purchase accounting adjustments resulting from the Transaction was 500 basis points, including incremental amortization (\$20 million) and the deferred revenue adjustment (\$3 million). The balance of the margin decline was caused primarily by a \$7 million decrease in license fees.

Higher Education and Public Sector Systems:

The HE/PS operating margin was 12.6% for the three months ended September 30, 2005 compared to 19.4% for the three months ended September 30, 2004. The negative impact on the HE/PS margin of the purchase accounting adjustments resulting from the Transaction was 80 basis points, including incremental amortization (\$2 million) and the deferred revenue adjustment (\$3 million). The balance of the margin decline in 2005 was caused primarily by a \$6 million decrease in license fee revenue and the negative impact on margins of a business acquired in February 2005.

Availability Services:

The AS operating margin was 26.0% for the three months ended September 30, 2005 compared to 31.1% for the three months ended September 30, 2004. The negative impact on the AS margin of the purchase accounting adjustments resulting from the Transaction was 440 basis points, including incremental amortization (\$10 million) and the deferred revenue adjustment (\$6 million). The AS margin also decreased due to the lower margin associated with a business acquired in January 2005.

REVENUE:

Total revenue was \$965 million for the three months ended September 30, 2005 compared to \$899 million for the three months ended September 30, 2004. The increase in total revenue in 2005 is due to \$40 million from acquired businesses offset in part by a decrease of \$32 million due to the sale of Brut LLC in September 2004 and the deferred revenue adjustment of \$12 million. Internal revenue growth was approximately 4% and

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3% in each of the three months ended September 30, 2005 and 2004, respectively.

Services revenue was \$879 million for the three months ended September 30, 2005 compared to \$800 million for the three months ended September 30, 2004. The increase was due primarily to the impact of acquired HE/PS and AS businesses and to internal revenue growth in FS, offset in part by the sale of Brut LLC.

Revenue from license and resale fees was \$60 million and \$76 million for the three months ended September 30, 2005 and 2004, respectively, and includes software license revenue of \$42 million and \$57 million, respectively.

Financial Systems:

The decrease in FS revenue in 2005 reflects the impact of the sale of Brut LLC which had \$32 million in revenue in 2004, offset in part by acquired businesses. Internal revenue growth was 3% for the three months ended September 30, 2005 compared to 4% in 2004.

For the three months ended September 30, 2005 and 2004, FS revenue from license and resale fees was \$33 million and \$41 million, respectively. The decrease was primarily due to brokerage and trading systems and benefit, insurance and investor accounting systems.

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Higher Education and Public Sector Systems:

The aggregate increase in HE/PS revenue was \$42 million for the three months ended September 30, 2005 compared to the corresponding period in 2004. Services revenue increased \$48 million due to acquired businesses and internal revenue growth of 5%, which was partly offset by a \$6 million decline in license and resale fees.

Availability Services:

The aggregate increase in AS revenue was \$35 million in 2005, due primarily to a business acquired in January 2005 and internal revenue growth of 6%.

COSTS AND EXPENSES:

Cost of sales and direct operating expenses as a percentage of total revenue was 47% for the three months ended September 30, 2005 compared to 46% for the three months ended September 30, 2004. The increase of \$42 million was due primarily to acquired businesses and an increase in reimbursable clearing broker costs, offset in part by a decrease in expenses due to the sale of Brut LLC.

Sales, marketing and administration expenses were 20% for the three months ended September 30, 2005 compared to 18% for the three months ended September 30, 2004. The increase of \$34 million was due primarily to acquired businesses, growth in the global account management program and a non-cash charge of approximately \$8 million for stock compensation (see Note 3 of Notes to Consolidated Condensed Financial Statements).

Because AS product development costs are insignificant, it is more meaningful to measure product development expense as a percentage of revenue from software and processing solutions. For the three months ended September 30, 2005 and 2004, software development expenses were 10% and 9% of revenue from software and processing solutions, respectively.

Depreciation and amortization was consistent as a percentage of total revenue at 6% for the three months ended September 30, 2005 and 2004. Total depreciation and amortization increased \$4 million in 2005 due primarily to depreciation from acquired businesses.

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Amortization of acquisition-related intangible assets was 7% for the three months ended September 30, 2005 compared to 3% for the three months ended September 30, 2004. Amortization of acquisition-related intangible assets increased \$36 million in 2005 due to the impact of the Transaction as well as recent acquisitions made by the Company.

Other income (expense) decreased \$82 million in the three months ended September 30, 2005 due to the gain associated with the sale of Brut LLC in September 2004.

Interest income was \$5 million for the three months ended September 30, 2005 compared to \$2 million for the three months ended September 30, 2004. The increase was due primarily to interest earned on higher average invested balances. Interest expense was \$91 million for the three months ended September 30, 2005 compared to \$8 million for the three months ended September 30, 2004. The increase was due to the \$7.3 billion increase in debt incurred in connection with the Transaction.

LIQUIDITY AND CAPITAL RESOURCES:

At September 30, 2005, cash and equivalents were \$303 million, a decrease of \$371 million from December 31, 2004. Cash flow from operations was \$828 million in the nine months ended September 30, 2005 compared to cash flow from operations of \$464 million in the nine months ended September 30, 2004. The increase in cash flow from operations is due primarily to the sale of accounts receivable under our long-term receivables facility, and to an increase in accounts payable and accrued expenses related to lower income tax payments in 2005 and lower initial working capital requirements of businesses acquired in 2005 compared to those acquired in 2004.

Net investing activities were \$12.25 billion in the nine months ended September 30, 2005, including \$11.62 billion in connection with the Transaction, \$434 million (net of cash acquired) for eight acquisitions and \$209 million for capital expenditures. Net cash used in investing activities was \$737 million in the nine months ended September 30, 2004, which is net of \$194 million cash received from the sale of Brut LLC and other businesses. During that period, we spent \$764 million (net of cash acquired) on nine acquisitions and \$167 million on capital expenditures.

Net cash provided by financing activities was \$11.05 billion for the nine months ended September 30, 2005. Transaction-related financing activities totaled \$11.11 billion, including \$7.33 billion of new debt incurred, \$3.45 billion of equity contributions and \$330 million of proceeds from option exercises. Net cash provided by financing activities was \$281 million in the first nine months of 2004.

At September 30, 2005, contingent purchase price obligations that depend upon the operating performance of certain acquired businesses cannot exceed \$152 million, none of which we currently expect to pay. We also have outstanding letters of credit and bid bonds that total approximately \$56 million.

As a result of the Transaction, we are highly leveraged and our debt service requirements are significant. At September 30, 2005, we have outstanding \$7.73 billion in aggregate indebtedness, with additional borrowing capacity of \$900 million under our revolving credit facility (not giving effect to any outstanding letters of credit, which could reduce the amount available under our new revolving credit facility) and \$49 million under our receivables facilities. Our cash interest expense for the period August 11, 2005 through September 30, 2005 was \$83 million.

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We expect our cash flow from operations, combined with availability under our revolving credit facility and receivables facilities, to provide sufficient liquidity to fund our current obligations, projected working capital requirements and capital spending for a period that includes the next 12 months.

The Transaction

On August 11, 2005, in connection with the Transaction, we (i) entered into a new \$4.0 billion senior secured credit facility, consisting of a \$3.69 billion term loan facility with SunGard Data Systems Inc. as the borrower, a \$315 million-equivalent term loan facility with a U.K. subsidiary as the borrower (\$165 million of which is denominated in euros and \$150 million of which is denominated in pounds sterling), and a \$1.0 billion revolving credit facility (\$900 million available as of September 30, 2005), (ii) issued \$3.0 billion aggregate principal amount of senior notes and senior subordinated notes and (iii) entered into receivables securitization facilities totaling \$375 million.

The senior secured credit facilities and the indentures governing the senior notes and senior subordinated notes issued in connection with the Transaction limit our (and most or all of our subsidiaries) ability to incur additional indebtedness, pay dividends on or make other distributions or repurchase capital stock, make certain investments, enter into certain types of

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transactions with affiliates, use assets as security in other transactions, and sell certain assets or merge with or into other companies. In addition, under the senior secured credit agreement, we will be required to satisfy and maintain specified financial ratios and other financial condition tests.

As of September 30, 2005, our total contractual cash obligations relating to short-term and long-term debt were \$7.73 billion, of which \$50 million is payable in the next year, \$80 million is payable in 2007 and 2008, \$308 million of which is payable in 2009 and 2010 and \$7.3 billion is payable after 2010. These amounts do not reflect any contractual obligations related to our operating leases, purchase obligations and our off-balance sheet receivables facilities described below.

Senior Secured Credit Facilities

Borrowings under the senior secured credit facilities bear interest at a rate equal to an applicable margin plus, at our option, either (a) a base rate determined by reference to the higher of (1) the prime rate of JPMorgan Chase Bank, N.A. and (2) the federal funds rate plus 1/2 of 1% or (b) a LIBOR rate determined by reference to the costs of funds for deposits in the currency of such borrowing for the interest period relevant to such borrowing adjusted for certain additional costs. The applicable margin for borrowings under the revolving credit facility may be reduced subject to attaining certain leverage ratios. In addition to paying interest on outstanding principal under the senior secured credit facilities, we pay a commitment fee to the lenders under the revolving credit facility in respect of the unutilized commitments thereunder. The initial commitment fee rate is 0.50% per annum. The commitment fee rate may be reduced subject to attaining certain leverage ratios.

All obligations under the senior secured credit agreement are unconditionally guaranteed by SunGard Holdco LLC and, subject to certain exceptions, by all domestic wholly owned subsidiaries, referred to, collectively, as U.S. Guarantors. In addition, the borrowings of U.K. subsidiary borrowers under the revolving credit facility are unconditionally guaranteed by certain wholly owned U.K. subsidiaries.

Senior Notes due 2009 and 2014

On January 15, 2004, we issued \$500 million of senior unsecured notes, \$250 million of 3.75% notes due 2009 and \$250 million of 4.875% notes due 2014, which are subject to certain standard covenants. Upon completion of the Transaction and to the extent required by their indentures, these senior notes became collateralized on an equal and ratable basis with loans under the senior secured credit facilities and are guaranteed by all subsidiaries that guarantee the senior notes due 2013 and senior subordinated notes due 2015. The senior notes due 2009 and 2014 are recorded at \$443 million as of September 30, 2005 as a result of fair value adjustments related to purchase accounting. The discount of \$57 million will be amortized into interest expense and added to the recorded amounts over the remaining periods to maturity.

Senior Notes due 2013 and Senior Subordinated Notes due 2015

The senior notes due 2013 are senior unsecured obligations that rank senior in right of payment to future debt and other obligations that are, by their terms, expressly subordinated in right of payment to the senior notes, including the senior subordinated notes. The senior notes (i) rank equally in right of payment to all existing and future senior debt and other obligations that are not, by their terms, expressly subordinated in right of payment to the senior notes, (ii) are effectively subordinated in right of payment to all existing and future secured debt to the extent of the value of the assets securing such debt, and (iii) are structurally subordinated to all obligations of each subsidiary that is not a guarantor of the senior notes.

The senior subordinated notes due 2015 are unsecured senior subordinated obligations that are subordinated in right of payment to the existing and future senior debt, including the senior secured credit facilities, the senior notes due 2009 and 2014 and the senior notes due 2013. The senior subordinated notes (i) rank equally in right of payment to all future senior subordinated debt, (ii) are effectively subordinated in right of payment to all existing and future secured debt to the extent of the value of the assets securing such debt, (iii) are structurally subordinated to all obligations of each subsidiary that is not a guarantor of the senior subordinated notes, and (iv) rank senior in right of payment to all future debt and other obligations that are, by their terms, expressly subordinated in right of payment to the senior subordinated notes.

The senior notes due 2013 and senior subordinated notes due 2015 are redeemable in whole or in part, at our option, at any time at varying redemption prices that generally include premiums, which are defined in the applicable indentures. In addition, upon a change of control, we are required to make an offer to redeem all of the senior notes and senior subordinated notes at a redemption price equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest.

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Receivables Securitization Facilities

In August 2005, certain domestic subsidiaries entered into two receivables facilities, a transitional facility and a long-term facility (the Facilities). The Facilities allow us to sell, on a revolving basis, an undivided interest that provides, in the aggregate, up to \$375 million in funding, based on the amount of eligible receivables and satisfaction of other customary conditions, for a period of up to six years following the Transaction.

Domestic subsidiaries that are not yet eligible to participate in the long-term facility participate in the transitional facility. Subsidiaries that participate in the transitional facility transfer their eligible receivables to third party conduits through a wholly owned bankruptcy remote special purpose entity that is consolidated for financial reporting purposes. The funding under the transitional facility is provided by the lenders under our senior secured credit facilities. We must use reasonable commercial efforts to cause the participating subsidiaries to join the long-term facility within 150 days after the Transaction. If this does not occur, the lenders will have the right to refinance the transitional facility on terms no less favorable to us than the terms of the senior secured term loan facility. Sales of receivables under the transitional facility cannot be accounted for as sales under the provisions of FASB Statement No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* (SFAS 140). Accordingly, these receivables, totaling \$281 million, are included in trade receivables and secure the corresponding borrowings, which are included in long-term debt in the accompanying consolidated balance sheet as of September 30, 2005.

Under the long-term facility, eligible receivables are sold to third-party conduits through a wholly owned bankruptcy remote special purpose entity that is not consolidated for financial reporting purposes. We continue to service the receivables and charge a monthly servicing fee at market rates. The third-party conduits are sponsored by the lenders under our senior secured credit facilities. Additional subsidiaries may become parties to the long-term facility, subject to the satisfaction of specified conditions including the completion of satisfactory due diligence. Sales of receivables under the long-term facility qualify as sales under the provisions of SFAS 140. Accordingly, these receivables, totaling \$303 million net of applicable allowances, and the corresponding borrowings, totaling \$139 million, are excluded from our consolidated balance sheet as of September 30, 2005. Our retained interest in receivables sold as of September 30, 2005 is \$151 million. Expenses associated with the long-term facility totaled \$7.6 million for the period ended September 30, 2005, of which \$4 million related to the loss on sale of the receivables and discount on retained interests (net of the related servicing revenue) is recorded in other income (expense) and the remainder, representing facility and professional fees, are recorded in merger and other costs in our consolidated statements of operations. The gain or loss on sale of receivables is determined at the date of transfer based upon the fair value of the assets sold and the interests retained. We estimate fair value based on the present value of expected cash flows. The collection period and discount rate (prime rate at September 30, 2005) are the key assumptions used in this estimate. At September 30, 2005, neither a 10% nor a 20% adverse change in the assumed collection period or assumed discount rate would have a material impact on our financial position or results of operations.

Covenant Compliance

Adjusted EBITDA is used to determine our compliance with certain covenants contained in the indentures governing the senior notes due 2013 and senior subordinated notes due 2015 and in our senior secured credit facilities. Adjusted EBITDA is defined as EBITDA further adjusted to exclude unusual items and other adjustments permitted in calculating covenant compliance under the indentures and our senior secured credit facilities. We believe that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA are appropriate to provide additional information to investors to demonstrate compliance with our financing covenants.

The breach of covenants in our senior secured credit facilities that are tied to ratios based on Adjusted EBITDA could result in a default under that agreement and the lenders could elect to declare all amounts borrowed due and payable. Any such acceleration would also result in a default under our indentures. Additionally, under our debt agreements, our ability to engage in activities such as incurring additional indebtedness, making investments and paying dividends is also tied to ratios based on Adjusted EBITDA.

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Adjusted EBITDA is calculated as follows:

	Predecessor			Successor		
	Nine months ended September 30, 2004	Three months ended September 30, 2004	Period from January 1, 2005 through August 10, 2005	Period from July 1, 2005 through August 10, 2005	Period from August 11, 2005 through September 30, 2005	Last Twelve Months September 30, 2005
Net income (loss)	\$ 341,762	\$ 153,537	\$ 145,752	\$ (42,665)	\$ (23,071)	\$ 234,560
Interest expense, net	16,940	5,921	7,541	223	86,111	97,026
Taxes	228,789	103,305	142,144	5,441	(19,884)	200,966
Depreciation and amortization	252,180	85,744	225,502	41,492	83,703	394,048
EBITDA	839,671	348,507	520,939	4,491	126,859	926,600
Purchase accounting adjustments (a)					12,114	12,114
Non-cash charges (b)	1,015	559	61,128	70	7,985	69,559
Unusual or non-recurring charges (c)	(76,286)	(75,862)	60,761	102,708	18,838	83,987
Restructuring charges or reserves (d)			11,497			11,497
Acquired EBITDA, net of disposed EBITDA (e)	45,089	11,630	11,836	503		24,068
Other (f)	2,034	829	2,271	247	134	3,368
Adjusted EBITDA - Senior Secured Credit Facilities	811,523	285,663	668,432	108,019	165,930	1,131,193
Loss on sale of receivables (g)					3,969	3,969
Adjusted EBITDA - Senior Notes due 2013 and Senior Subordinated Notes due 2015	\$ 811,523	\$ 285,663	\$ 668,432	\$ 108,019	\$ 169,899	\$ 1,135,162

- (a) Purchase accounting adjustments include the adjustment of deferred revenue to fair value at the date of the Transaction.
- (b) Non-cash charges include non-cash stock-based compensation resulting from the acceleration of stock options and restricted stock under APB 25 and relating to the new stock-based compensation plans under SFAS 123R (see Note 3 of Notes to Consolidated Financial Statements) and loss on the sale of assets.
- (c) Unusual or non-recurring charges include merger costs associated with the Transaction, gain on the sale of Brut LLC, payroll taxes and certain compensation and other expenses associated with acquisitions made by the Company.
- (d) Restructuring charges or reserves include the relocation of a leased availability services facility in North Bergen, New Jersey to an expanded facility in Carlstadt, New Jersey.
- (e) Acquired EBITDA net of disposed EBITDA reflects the EBITDA impact of significant businesses that were acquired or disposed of during the period as if the acquisition or disposition occurred at the beginning of the period.
- (f) Other includes franchise and similar taxes reported in operating expenses and management fees paid to the Sponsors, offset by interest charges relating to the receivables facilities and gains related to fluctuation of foreign currency exchange rates.
- (g) The loss on sale of receivables under the long-term receivables facility is added back in calculating Adjusted EBITDA for purposes of the indentures governing the senior notes due 2013 and the senior subordinated notes due 2015 but is not added back in calculating Adjusted EBITDA for purposes of the senior secured credit facilities.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS:

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On December 16, 2004, the Financial Accounting Standards Board (FASB) issued a new standard on accounting for share-based payments, SFAS Number 123R (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R supersedes Accounting Principles Board Opinion Number 25 (APB 25) and requires companies to expense the fair value of employee stock options and similar awards over the employee requisite service period. The Company adopted SFAS 123R as of the

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date of 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.

Prior to the closing of the Transaction, the Company applied Accounting Principles Board Opinion Number 25, *Accounting for Stock Issued to Employees*, in accounting for its stock option and award plans. Accordingly, compensation expense was recorded for its restricted stock awards and no expense was recorded for its other stock-based plans. The Company provided supplemental information in the footnotes of the financial statements in accordance with SFAS Number 123, *Accounting for Stock-Based Compensation* (SFAS 123).

The Company has consistently used the Black-Scholes option-pricing model to value its options. For the period ended September 30, 2005, the Company recognized non-cash stock-based compensation expense of \$8 million relating to its stock-based compensation plans. At September 30, 2005, there is approximately \$115 million of unearned non-cash compensation that the Company expects to recognize as expense over the next 5.25 years.

In September 2004 the FASB Emerging Issues Task Force reached a consensus on Issue 04-01, *Accounting for Pre-existing Relationships between the Parties to a Business Combination* (EITF 04-01). EITF 04-01 is effective for business combinations completed in reporting periods beginning after October 13, 2004. EITF 04-01 applies when two parties that have a pre-existing contractual relationship enter into a business combination. EITF 04-01 addresses whether a consummation of a business combination between two parties that have a pre-existing contractual relationship should be evaluated to determine if a settlement of a pre-existing contractual relationship exists, thus requiring accounting separate from the business combination. The adoption of EITF 04-01 on January 1, 2005 did not have a material impact on the Company's financial position or results of operations.

In December 2004 the FASB Staff issued FASB Staff Position No. 109-2 (FSP 109-2), *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* (the Jobs Act), which was effective upon issuance. FSP 109-2 provides guidance with respect to reporting the potential impact of the repatriation provisions of the Jobs Act on an enterprise's income tax expense and deferred tax liability. The Jobs Act was enacted in October 2004 and provides for a temporary 85% dividends received deduction on certain foreign earnings repatriated during a one-year period. The deduction would result in an approximate 5.25% federal tax rate on the repatriated earnings. To qualify for the deduction, the earnings must be reinvested in the United States pursuant to a domestic reinvestment plan established by a company's chief executive officer and approved by a company's board of directors. Certain other criteria in the Jobs Act must be satisfied as well. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings. FSP 109-2 is not expected to have a material impact on the Company's 2005 tax expense or deferred tax liability.

In March 2005 the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, an interpretation of FASB Statement No. 143 (FIN 47). FIN 47 clarifies that conditional asset retirement obligations meet the definition of liabilities and should be recognized when incurred if their fair values can be reasonably estimated. The Interpretation is effective no later than December 31, 2005. The cumulative effect of initially applying the Interpretation will be recognized as a change in accounting principle. The Company is in the process of evaluating the expected effect of FIN 47 on its Consolidated Financial Statements.

RISK FACTORS:

Certain of the matters we discuss in this Form 10-Q, including certain statements made in *Liquidity and Capital Resources*, and all other statements in this Form 10-Q other than historical facts, constitute forward-looking statements. You can identify forward-looking statements

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because they contain words such as believes, expects, may, will, would, should, seeks, approximately, intends, plans, estimates, and similar expressions which concern our strategy, plans or intentions. All statements we make relating to estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. All of these forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those we expected. We derive most of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. Some of the factors that we believe could affect our results include: general economic and market conditions; the overall

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condition of the financial services industry, including the effect of any further consolidation among financial services firms; the integration of acquired businesses, the performance of acquired businesses, and the prospects for future acquisitions; the effect of war, terrorism, natural disasters or other catastrophic events; the effect of disruptions to our systems and infrastructure; the timing and magnitude of software sales; the timing and scope of technological advances; customers taking their information availability solutions in-house; the trend in information availability toward solutions utilizing more dedicated resources; the market and credit risks associated with clearing broker operations; the ability to retain and attract customers and key personnel; risks relating to the foreign countries where we transact business; and the ability to obtain patent protection and avoid patent-related liabilities in the context of a rapidly developing legal framework for software and business-method patents. The factors described in this paragraph and other factors that may affect our business or future financial results are discussed in our filings with the Securities and Exchange Commission, including this Form 10-Q. We assume no obligation to update any written or oral forward-looking statement made by us or on our behalf as a result of new information, future events or other factors.

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Risks Related to Our Indebtedness

Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our debt obligations.

As a result of the Transaction, we are highly leveraged and our debt service requirements are significant. At September 30, 2005, our total indebtedness is \$7.73 billion. We also have additional \$900 million available for borrowing under the revolving portion of our revolving credit facility at that date. In addition, \$49 million of funding is outstanding under our long-term receivables facility.

Our high degree of leverage could have important consequences, including:

making it more difficult for us to make payments on our debt obligations;

increasing our vulnerability to general economic and industry conditions;

requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;

exposing us to the risk of increased interest rates as certain of our borrowings, including borrowings under our senior secured credit facilities and senior subordinated credit facility, will be at variable rates of interest;

restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;

limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; and

limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in our senior secured credit facilities and the indentures relating to our new senior notes. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

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Our senior secured credit agreement and the indentures governing our new senior notes contain various covenants that limit our ability to engage in specified types of transactions. These covenants limit our and our restricted subsidiaries' ability to, among other things:

incur additional indebtedness or issue certain preferred shares;

pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments;

make certain investments;

sell certain assets;

create liens;

consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and

enter into certain transactions with our affiliates

In addition, under the senior secured credit agreement, we are required to satisfy and maintain specified financial ratios and other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and we cannot assure you that we will meet those ratios and tests. A breach of any of these covenants could result in a default under the senior secured credit agreement. Upon the occurrence of an event of default under the senior secured credit agreement, the lenders could elect to declare all amounts outstanding under the senior secured credit agreement to be immediately due and payable and terminate all commitments to extend further credit.

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If we were unable to repay those amounts, the lenders under the senior secured credit agreement could proceed against the collateral granted to them to secure that indebtedness. We have pledged a significant portion of our assets as collateral under the senior secured credit agreement and, to the extent required by the indenture governing the existing senior notes, the existing senior notes. If the lenders under the senior secured credit agreement accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay the senior secured credit agreement and the existing senior notes, as well as our unsecured indebtedness.

Risks Related to Our Business

Our business depends largely on the economy and financial markets, and a slowdown or downturn in the economy or financial markets could adversely affect our business and results of operations.

When there is a slowdown or downturn in the economy, a drop in stock market levels or trading volumes, or an event that disrupts the financial markets, our business and financial results may suffer for a number of reasons. Customers may react to worsening conditions by reducing their capital expenditures in general or by specifically reducing their spending on information technology. In addition, customers may curtail or discontinue trading operations, delay or cancel information technology projects, or seek to lower their costs by renegotiating vendor contracts. Also, customers with excess information technology resources may choose to take their availability solutions in-house rather than obtain those solutions from us. Moreover, competitors may respond to market conditions by lowering prices and attempting to lure away our customers to lower cost solutions. If any of these circumstances remain in effect for an extended period of time, there could be a material adverse effect on our financial results. During the last economic slowdown, our internal growth decreased, and nearly all of our revenue growth during 2001 through 2003 was from acquisitions. Because our financial performance tends to lag behind fluctuations in the economy, our recovery from any particular downturn in the economy may not occur until after economic conditions have generally improved.

Our business depends largely on the financial services industry, and a weakening of the financial services industry could adversely affect our business and results of operations.

Because our customer base is concentrated in the financial services industry, our business is largely dependent on the health of that industry. When there is a general downturn in the financial services industry, or if our customers in that industry experience financial or business problems, our business and financial results may suffer. If financial services firms continue to consolidate (as they have over the past decade or so), there could be a material adverse effect on our business and financial results. When a customer merges with a firm using its own solution or another vendor's solution, they could decide to consolidate their processing on a non-SunGard system, which could have an adverse effect on our financial results.

Our acquisition program is an important element of our strategy but, because of the uncertainties involved, this program may not be successful and we may not be able to successfully integrate and manage acquired businesses.

Part of our growth strategy is to pursue additional acquisitions in the future. There can be no assurance that our acquisition program will continue to be successful. In addition, we may finance any future acquisition with debt, which would increase our interest costs. If we are unable to successfully integrate and manage acquired businesses, or if acquired businesses perform poorly, then our business and financial results may suffer. It is possible that the businesses we have acquired and businesses that we acquire in the future may perform worse than expected or prove to be more difficult to integrate and manage than expected. If that happens, there may be a material adverse effect on our business and financial results for a number of reasons, including:

we may have to devote unanticipated financial and management resources to acquired businesses;

we may not be able to realize expected operating efficiencies or product integration benefits from our acquisitions;

we may have to write-off goodwill or other intangible assets; and

we may incur unforeseen obligations or liabilities in connection with acquisitions.

If we are unable to identify suitable acquisition candidates and successfully complete acquisitions, our growth and our financial results may be adversely affected.

Our growth has depended in part on our ability to acquire similar or complementary businesses on favorable terms. In the last three years, most of our revenue growth was from acquired businesses. This growth strategy is subject to a number of risks that could adversely affect our business and financial results, including:

we may not be able to find suitable businesses to acquire at affordable valuations or on other acceptable terms;

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we may face competition for acquisitions from other potential acquirers, some of whom may have greater resources than us or may be less highly leveraged, or from the possibility of an acquisition target pursuing an initial public offering of its stock;

we may have to incur additional debt to finance future acquisitions as we have done in the past and no assurance can be given as to whether, and on what terms, such additional debt will be available; and

we may find it more difficult or costly to complete acquisitions due to changes in accounting, tax, securities or other regulations.

Catastrophic events may disrupt or otherwise adversely affect the markets in which we operate, our business and our profitability.

Our business may be adversely affected by a war, terrorist attack, natural disaster or other catastrophe. A catastrophic event could have a direct negative impact on us or an indirect impact on us by, for example, affecting our customers, the financial markets or the overall economy. The potential for a direct impact is due primarily to our significant investment in our infrastructure. Although we maintain redundant facilities and have contingency plans in place to protect against both man-made and natural threats, it is impossible to fully anticipate and protect against all potential catastrophes. Despite our preparations, a security breach, criminal act, military action, power or communication failure, flood, severe storm or the like could lead to service interruptions and data losses for customers, disruptions to our operations, or damage to our important facilities. The same disasters or circumstances that may lead to our customers requiring access to our availability services may negatively impact our own ability to provide such services. Our three largest availability services facilities are particularly important, and a major disruption at one or more of those facilities could disrupt or otherwise impair our ability to provide services to our availability services customers. If any of these events happen, we may be exposed to unexpected liability, our customers may leave, our reputation may be tarnished, and there could be a material adverse effect on our business and financial results.

Our application service provider systems may be subject to disruptions that could adversely affect our reputation and our business.

Our application service provider systems maintain and process confidential data on behalf of our customers, some of which is critical to their business operations. For example, our brokerage and trading systems maintain account and trading information for our customers and their clients, and our benefit, insurance and investor accounting systems maintain investor account information for retirement plans, insurance policies and mutual funds. There is no guarantee that the systems and procedures that we maintain to protect against unauthorized access to such information are adequate to protect against all security breaches. If our application service provider systems are disrupted or fail for any reason, or if our systems or facilities are infiltrated or damaged by unauthorized persons, our customers could experience data loss, financial loss, harm to reputation and significant business interruption. If that happens, we may be exposed to unexpected liability, our customers may leave, our reputation may be tarnished, and there could be a material adverse effect on our business and financial results.

Because the sales cycle for our software is typically lengthy and unpredictable, our results may fluctuate from period to period.

Our operating results may fluctuate from period to period and be difficult to predict in a particular period due to the timing and magnitude of software sales. We offer some of our financial systems on a license basis, which means that the customer has the right to run the software on its own computers. The customer usually makes a significant up-front payment to license software, which we generally recognize as revenue when the license contract is signed and the software is delivered. The size of the up-front payment often depends on a number of factors that are different for each customer, such as the number of customer locations, users or accounts. As a result, the sales cycle for a software license may be lengthy and take unexpected turns. Thus, it is difficult to predict when software sales will occur or how much revenue they will generate. Since there are few incremental costs associated with software sales, our operating results may fluctuate from quarter to quarter and year to year due to the timing and magnitude of software sales.

Rapid changes in technology and our customers' businesses could adversely affect our business and financial results.

Our business may suffer if we do not successfully adapt our products and services to changes in technology and changes in our customers' businesses. These changes can occur rapidly and at unpredictable intervals and we cannot assure you that we will be able to respond adequately. If we do not successfully update and integrate our products and services to adapt to these changes, or if we do not successfully develop new products and services needed by our customers to keep pace with these changes, then our business and financial results may suffer. Our ability to keep up with technology and business changes is subject to a number of risks, including:

we may find it difficult or costly to update our products and services and to develop new products fast enough to meet our customers' needs;

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we may find it difficult or costly to make some features of our products and services work effectively and securely over the Internet;

we may find it difficult or costly to integrate more of our FS solutions into efficient straight-through processing solutions;

we may find it difficult or costly to update our products and services to keep pace with business, regulatory and other developments in the financial services industry, where many of our customers operate; and

we may find it difficult or costly to update our services to keep pace with advancements in hardware, software and telecommunications technology.

Some technological changes, such as advancements that have facilitated the ability of our AS customers to develop their own internal solutions, may render some of our products and services less valuable or eventually obsolete. In addition, because of ongoing, rapid technological changes, the useful lives of some technology assets have become shorter and customers are therefore replacing these assets more often. As a result, our customers are increasingly expressing a preference for contracts with shorter terms, which could make our revenue less predictable in the future.

Customers taking their availability solutions in-house may continue to create pressure on our internal revenue growth rate.

Our AS solutions allow customers to leverage our significant infrastructure and take advantage of our experience, technology expertise, resource management capabilities and vendor neutrality. Nevertheless, some customers, especially among the very largest having significant information technology resources, prefer to develop and maintain their own in-house availability solutions, which can result in a loss of revenue from those customers. Technological advances in recent years have significantly reduced the cost yet not the complexity of developing in-house solutions. Over the past several years, business lost to customers taking their availability solutions in-house generally has offset our new sales. If this trend continues or worsens, there will be continued pressure on our internal revenue growth rate.

The trend toward information availability solutions utilizing more single customer dedicated resources likely will lower our overall operating margin percentage over time.

In the information availability services industry, especially among our more sophisticated customers, there is an increasing preference for solutions that utilize some level of dedicated resources, such as blended advanced recovery services and always on production services. The primary reason for this trend is that adding dedicated resources, although more costly, provides greater control, reduces data loss and facilitates quicker responses to business interruptions. Advanced recovery services often result in greater use of both shared and dedicated resources and, therefore, typically generate appreciably higher revenue with only a modest increase in capital expenditures and a modest