

SUNGARD DATA SYSTEMS INC

Form 10-Q

November 08, 2007

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**United States**  
**Securities and Exchange Commission**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

**Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended September 30, 2007

OR

**Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-12989

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

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

incorporation or organization)

**680 East Swedesford Road, Wayne, Pennsylvania 19087**

(Address of principal executive offices, including zip code)

**484-582-2000**

**51-0267091**  
(IRS Employer

Identification No.)

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(Registrant's telephone number, including area code)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

There were 100 shares of the registrant's common stock outstanding as of September 30, 2007.

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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 millions except share and per-share amounts)**

|  | <b>December 31,<br/>2006</b> | <b>September 30,<br/>2007<br/>(unaudited)</b> |
|--|------------------------------|---|
| <b>Assets</b>  |                              |   |
| Current:   |                              |   |
| Cash and cash equivalents  | \$ 316                       | \$ 362  |
| Trade receivables, less allowance for doubtful accounts of \$14 and \$20               | 216                          | 215   |
| Earned but unbilled receivables  | 63                           | 69  |
| Prepaid expenses and other current assets  | 145                          | 159   |
| Clearing broker assets   | 420                          | 537   |
| Retained interest in accounts receivable sold  | 275                          | 255   |
| Deferred income taxes  | 34                           | 33  |
| <b>Total current assets</b>  | <b>1,469</b>                 | <b>1,630</b>                                  |
| Property and equipment, less accumulated depreciation of \$304 and \$479               | 773                          | 855   |
| Software products, less accumulated amortization of \$304 and \$487                    | 1,386                        | 1,297   |
| Customer base, less accumulated amortization of \$266 and \$422                        | 2,857                        | 2,797   |
| Other tangible and intangible assets, less accumulated amortization of \$13 and \$18   | 216                          | 187   |
| Trade name   | 1,019                        | 1,022   |
| Goodwill   | 6,951                        | 7,154   |
| <b>Total Assets</b>  | <b>\$ 14,671</b>             | <b>\$ 14,942</b>                              |
| <b>Liabilities and Stockholder's Equity</b>  |                              |   |
| Current:   |                              |   |
| Short-term and current portion of long-term debt                                       | \$ 45                        | \$ 55   |
| Accounts payable   | 80                           | 60  |
| Accrued compensation and benefits  | 224                          | 209   |
| Accrued interest expense   | 164                          | 82  |
| Other accrued expenses   | 275                          | 324   |
| Clearing broker liabilities  | 376                          | 498   |
| Deferred revenue   | 762                          | 793   |
| <b>Total current liabilities</b>   | <b>1,926</b>                 | <b>2,021</b>                                  |
| Long-term debt   | 7,394                        | 7,609   |
| Deferred income taxes  | 1,777                        | 1,780   |
| <b>Total liabilities</b>   | <b>11,097</b>                | <b>11,410</b>                                 |
| Commitments and contingencies  |                              |   |
| Stockholder's equity:  |                              |   |
| Common stock, par value \$.01 per share; 100 shares authorized, issued and outstanding |                              |   |

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|   |                  |                  |
|---|------------------|------------------|
| Capital in excess of par value                    | 3,664            | <b>3,668</b>     |
| Accumulated deficit                               | (147)            | <b>(237)</b>     |
| Accumulated other comprehensive income            | 57               | <b>101</b>       |
| <b>Total stockholder's equity</b>                 | <b>3,574</b>     | <b>3,532</b>     |
| <b>Total Liabilities and Stockholder's Equity</b> | <b>\$ 14,671</b> | <b>\$ 14,942</b> |

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

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

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2006</b>                                 | <b>2007</b> | <b>2006</b>                                | <b>2007</b> |
| <b>Revenue:</b>  |   |             |  |             |
| Services   | \$ 963                                      | \$ 1,098    | \$ 2,842                                   | \$ 3,162    |
| License and resale fees                                      | 81  | 87          | 214  | 252         |
| Total products and services                                  | 1,044                                       | 1,185       | 3,056                                      | 3,414       |
| Reimbursed expenses  | 24  | 37          | 79   | 99          |
|  | 1,068                                       | 1,222       | 3,135                                      | 3,513       |
| <b>Costs and expenses:</b>                                   |   |             |  |             |
| Cost of sales and direct operating                           | 493   | 581         | 1,460                                      | 1,649       |
| Sales, marketing and administration                          | 215   | 240         | 659  | 748         |
| Product development  | 63  | 64          | 191  | 202         |
| Depreciation and amortization                                | 60  | 63          | 175  | 183         |
| Amortization of acquisition-related intangible assets        | 99  | 110         | 297  | 319         |
| Merger costs   | 2   |             | 5  |             |
|  | 932   | 1,058       | 2,787                                      | 3,101       |
| Income from operations                                       | 136   | 164         | 348  | 412         |
| Interest income  | 4   | 4           | 10   | 13          |
| Interest expense and amortization of deferred financing fees | (165)                                       | (161)       | (483)                                      | (485)       |
| Other expense  | (4)   | (11)        | (22)                                       | (51)        |
| Loss before income taxes                                     | (29)  | (4)         | (147)                                      | (111)       |
| Provision for (benefit from) income taxes                    | 2   | (15)        | (40)                                       | (21)        |
| Net income (loss)  | \$ (31)                                     | \$ 11       | \$ (107)                                   | \$ (90)     |

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

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

|  | <b>Nine Months Ended<br/>September 30,</b> |               |
|--|--|---------------|
|  | <b>2006</b>                                | <b>2007</b>   |
| <b><i>Cash flow from operations:</i></b>                               |  |               |
| Net loss   | \$ (107)                                   | \$ (90)       |
| Reconciliation of net loss to cash flow used in operations:            |  |               |
| Depreciation and amortization  | 472  | 502           |
| Deferred income tax benefit  | (98)                                       | (72)          |
| Stock compensation expense   | 27   | 19            |
| Amortization of deferred financing costs and debt discount             | 25   | 37            |
| Other noncash charges (credits)  | (36)                                       | 3             |
| Accounts receivable and other current assets                           | 43   | 39            |
| Accounts payable and accrued expenses                                  | (124)                                      | (122)         |
| Clearing broker assets and liabilities, net                            | (12)                                       | 4             |
| Deferred revenue   | 24   | 9             |
| <b>Cash flow provided by operations</b>                                | <b>214</b>                                 | <b>329</b>    |
| <b><i>Investment activities:</i></b>                                   |  |               |
| Cash paid for businesses acquired by the Company, net of cash acquired | (24)                                       | (223)         |
| Cash paid for property and equipment and software                      | (222)                                      | (213)         |
| Other investing activities   | 8  | 7             |
| <b>Cash used in investment activities</b>                              | <b>(238)</b>                               | <b>(429)</b>  |
| <b><i>Financing activities:</i></b>                                    |  |               |
| Cash received from borrowings, net of fees                             |  | <b>656</b>    |
| Cash used to repay debt  | (37)                                       | (504)         |
| Other financing activities   | (3)  | (15)          |
| <b>Cash provided by (used in) financing activities</b>                 | <b>(40)</b>                                | <b>137</b>    |
| Effect of exchange rate changes on cash                                | 15   | 9             |
| <b>Increase (decrease) in cash and cash equivalents</b>                | <b>(49)</b>                                | <b>46</b>     |
| Beginning cash and cash equivalents                                    | 317  | 316           |
| <b>Ending cash and cash equivalents</b>                                | <b>\$ 268</b>                              | <b>\$ 362</b> |
| <b><i>Supplemental information:</i></b>                                |  |               |
| Acquired businesses:   |  |               |
| Property and equipment   | \$   | \$ 59         |

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|   |     |             |
|---|-----|-------------|
| Software products                           | 6   | <b>44</b>   |
| Customer base                               | 5   | <b>79</b>   |
| Goodwill                                    | 16  | <b>151</b>  |
| Other tangible and intangible assets        | 2   | <b>10</b>   |
| Deferred income taxes                       | (1) | <b>(46)</b> |
| Purchase price obligations and debt assumed | (2) | <b>(38)</b> |
| Net current liabilities assumed             | (2) | <b>(36)</b> |

Cash paid for acquired businesses, net of cash acquired of \$2 and \$20, respectively \$ 24 \$ 223

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. ( SunGard or the Company ) was acquired on August 11, 2005 (the Transaction ) by a consortium of private equity investment funds associated with Bain Capital Partners, The Blackstone Group, Goldman Sachs & Co., Kohlberg Kravis Roberts & Co., Providence Equity Partners, Silver Lake and Texas Pacific Group (collectively, the Sponsors ).

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

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

The accompanying interim consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America ( GAAP ), consistent in all material respects with those applied in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. Interim financial reporting does not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with SunGard s financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. 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, 2007.

**Effect of Recent Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( SFAS 157 ), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. SFAS 157 is effective as of January 1, 2008. The Company is currently evaluating SFAS 157 and the related impact on the Company s consolidated financial statements.

**2. Acquisitions:**

The Company seeks to acquire businesses that broaden its existing product lines and service offerings by adding complementary products and service offerings and by expanding its geographic reach. During the nine months ended September 30, 2007, the Company completed six acquisitions in its FS segment, one in its HEPS segment and one in its AS segment. Cash paid, net of cash acquired and subject to certain adjustments, was \$223 million. The allocations of purchase price for these acquisitions are preliminary.

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The following table lists the businesses the Company acquired in the first nine months of 2007:

| <b>Acquired Company/Business</b>     | <b>Date<br/>Acquired</b> | <b>Description</b>  |
|--------------------------------------|--------------------------|---|
| XRT SA's High-End Treasury Business  | 1/25/2007                | Treasury and cash management applications.  |
| Maxim Insurance Software Corporation | 2/6/2007                 | Premium billing systems to the property and casualty industry.  |
| Aceva Technologies, Inc.             | 2/14/2007                | Credit and collections software solutions.  |
| Finetix, LLC                         | 4/20/2007                | Specialized technology and architecture consulting for financial institutions, service providers and hedge funds. |
| Energy Softworx, Inc.                | 4/20/2007                | Fuels management software solutions for the power generation industry.  |
| Aspiren Group Limited                | 6/1/2007                 | Performance management software solutions and services in the United Kingdom.                                     |
| GTI Consultants SAS                  | 6/6/2007                 | Consulting and IT professional services to financial institutions in France.                                      |
| VeriCenter, Inc.                     | 8/20/2007                | Managed services, application hosting and IT infrastructure outsourcing.  |

**Table of Contents****Goodwill**

The following table summarizes changes in goodwill by segment (in millions):

|  | FS       | HEPS     | AS       | Total    |
|--|----------|----------|----------|----------|
| Balance at December 31, 2006           | \$ 2,918 | \$ 1,880 | \$ 2,153 | \$ 6,951 |
| 2007 acquisitions                      | 25       | 14       | 120      | 159      |
| Adjustments to previous acquisitions   | (3)      | 4        | 7        | 8        |
| Effect of foreign currency translation | 12       | 5        | 19       | 36       |
| Balance at September 30, 2007          | \$ 2,952 | \$ 1,903 | \$ 2,299 | \$ 7,154 |

**3. Clearing Broker Assets and Liabilities:**

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

|   | December 31,<br>2006 | September 30,<br>2007 |
|---|----------------------|-----------------------|
| Segregated customer cash and treasury bills       | \$ 48                | \$ 105                |
| Securities owned                                  | 28                   | 53                    |
| Securities borrowed                               | 305                  | 352                   |
| Receivables from customers and other              | 39                   | 27                    |
| Clearing broker assets                            | \$ 420               | \$ 537                |
| Payables to customers                             | \$ 70                | \$ 126                |
| Securities loaned                                 | 275                  | 306                   |
| Customer securities sold short, not yet purchased | 15                   | 30                    |
| Payable to brokers and dealers                    | 16                   | 36                    |
| Clearing broker liabilities                       | \$ 376               | \$ 498                |

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, which are based on quoted market rates. 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.

**4. Debt:**

In February 2007 the Company amended its senior secured credit facility to reduce the effective interest rates on the term loan facility, increase the size of that facility from \$4.0 billion to \$4.4 billion, extend the maturity by one year and change certain other terms. In March 2007 the Company used the additional borrowings to redeem the \$400 million in aggregate principal amount of senior floating rate notes due 2013. The related redemption premium of \$19 million and write-off of approximately \$9 million of deferred financing costs were included in other expense.

**5. Income Taxes:**

The Company adopted the provisions of FASB Interpretation No 48, Accounting for Uncertainty in Income Taxes (FIN 48) on January 1, 2007 with no material effect. The Company's reserve for unrecognized income tax benefits at September 30, 2007 is \$28 million. This liability includes approximately \$3 million (net of federal and state benefit) in accrued interest and penalties. Since substantially all of the liability relates to matters existing at the date of the Transaction, any reversal of reserve is not expected to have a material impact on the Company's annual

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effective tax rate. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

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The Company is currently under audit by the Internal Revenue Service for the calendar years 2003, 2004 and 2005 and various state and foreign jurisdiction tax years remain open to examination as well. At any time some portion of the Company's operations is under audit. Accordingly, certain matters may be resolved within the next 12 months which could result in a change in the liability.

**6. Comprehensive Income (Loss):**

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

|  | <b>Three Months Ended September 30,</b> |             | <b>Nine Months Ended September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2006</b>                             | <b>2007</b> | <b>2006</b>                            | <b>2007</b> |
| Net income (loss)                                | \$ (31)                                 | \$ 11       | \$ (107)                               | \$ (90)     |
| Foreign currency translation gains               | 2                                       | 31          | 50                                     | 53          |
| Unrealized gain (loss) on derivative instruments | (16)                                    | (15)        | 2                                      | (9)         |
| Comprehensive income (loss)                      | \$ (45)                                 | \$ 27       | \$ (55)                                | \$ (46)     |

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

The Company has three segments: FS and HEPS, which together form the Company's Software & Processing Solutions business, and AS. Effective January 1, 2007, the Company reclassified one business from FS to HEPS. This change has been reflected in all periods presented. The operating results for each segment follow (in millions):

|   | Three Months Ended September 30, |          | Nine Months Ended September 30, |          |
|---|----------------------------------|----------|---------------------------------|----------|
|   | 2006                             | 2007     | 2006                            | 2007     |
| <b>Revenue:</b>   |                                  |          |                                 |          |
| Financial systems   | \$ 502                           | \$ 622   | \$ 1,467                        | \$ 1,755 |
| Higher education and public sector systems                    | 226                              | 231      | 661                             | 695      |
| Software & processing solutions                               | 728                              | 853      | 2,128                           | 2,450    |
| Availability services   | 340                              | 369      | 1,007                           | 1,063    |
|   | \$ 1,068                         | \$ 1,222 | \$ 3,135                        | \$ 3,513 |
| <b>Income (loss) from operations:</b>                         |                                  |          |                                 |          |
| Financial systems   | \$ 59                            | \$ 67    | \$ 144                          | \$ 180   |
| Higher education and public sector systems                    | 35                               | 37       | 91                              | 109      |
| Software & processing solutions                               | 94                               | 104      | 235                             | 289      |
| Availability services   | 74                               | 84       | 201                             | 212      |
| Corporate administration                                      | (30)                             | (24)     | (83)                            | (89)     |
| Merger and other costs  | (2)                              |          | (5)                             |          |
|   | \$ 136                           | \$ 164   | \$ 348                          | \$ 412   |
| <b>Depreciation and amortization:</b>                         |                                  |          |                                 |          |
| Financial systems   | \$ 13                            | \$ 16    | \$ 39                           | \$ 44    |
| Higher education and public sector systems                    | 4                                | 4        | 11                              | 12       |
| Software & processing solutions                               | 17                               | 20       | 50                              | 56       |
| Availability services   | 43                               | 43       | 125                             | 127      |
| Corporate administration                                      |                                  |          |                                 |          |
|   | \$ 60                            | \$ 63    | \$ 175                          | \$ 183   |
| <b>Amortization of acquisition-related intangible assets:</b> |                                  |          |                                 |          |
| Financial systems   | \$ 52                            | \$ 57    | \$ 153                          | \$ 172   |
| Higher education and public sector systems                    | 17                               | 19       | 55                              | 53       |
| Software & processing solutions                               | 69                               | 76       | 208                             | 225      |
| Availability services   | 30                               | 33       | 88                              | 92       |
| Corporate administration                                      |                                  | 1        | 1                               | 2        |
|   | \$ 99                            | \$ 110   | \$ 297                          | \$ 319   |
| <b>Cash paid for property and equipment and software:</b>     |                                  |          |                                 |          |
| Financial systems   | \$ 21                            | \$ 20    | \$ 59                           | \$ 61    |
| Higher education and public sector systems                    | 6                                | 10       | 14                              | 21       |
| Software & processing solutions                               | 27                               | 30       | 73                              | 82       |

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|                          |       |       |        |        |
|--------------------------|-------|-------|--------|--------|
| Availability services    | 51    | 31    | 149    | 131    |
| Corporate administration |       |       |        |        |
|                          | \$ 78 | \$ 61 | \$ 222 | \$ 213 |

**8. Related Party Transactions:**

During the three-month periods ended September 30, 2006 and 2007, in accordance with the Management Agreement between the Company and the Sponsors, the Company recorded \$3 million and \$6 million, respectively, of management fees in sales, marketing and administration expenses. In the nine-month periods ended September 30, 2006 and 2007, the Company recorded \$10 million and \$13 million, respectively, of management fees in sales, marketing and administration expenses. At December 31, 2006 and September 30, 2007, \$3 million and \$5 million, respectively, were included in other accrued expenses.

**Table of Contents****9. Supplemental Guarantor Condensed Consolidating Financial Statements:**

On August 11, 2005, in connection with the Transaction, the Company issued \$3.0 billion aggregate principal amount of the outstanding senior notes and the outstanding senior subordinated notes. The senior notes are jointly and severally, fully and unconditionally guaranteed on a senior unsecured basis and the senior subordinated notes are jointly and severally, fully and unconditionally guaranteed on an unsecured senior subordinated basis, in each case, subject to certain exceptions, by substantially all wholly owned domestic subsidiaries of the Company (collectively, the Guarantors). Each of the Guarantors is 100% owned, directly or indirectly, by the Company. None of the other subsidiaries of the Company, either direct or indirect, guarantee the senior notes and senior subordinated notes (Non-Guarantors). The Guarantors also unconditionally guarantee the senior secured credit facilities.

The following tables present the financial position, results of operations and cash flows of the Company (Parent), the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and Eliminations as of December 31, 2006 and September 30, 2007 and for each of the three- and nine-month periods ended September 30, 2006 and 2007, to arrive at the information for SunGard Data Systems Inc. on a consolidated basis.

**Supplemental Condensed Consolidating Balance Sheet**

| (in millions)                                     | December 31, 2006 |                           |                               |                    |                  |
|---|-------------------|---------------------------|-------------------------------|--------------------|------------------|
|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations       | Consolidated     |
| <b>Assets</b>                                     |                   |                           |                               |                    |                  |
| Current:  |                   |                           |                               |                    |                  |
| Cash and cash equivalents                         | \$ 56             | \$ (19)                   | \$ 279                        | \$                 | \$ 316           |
| Intercompany balances                             | (2,282)           | 2,244                     | 38                            |                    |                  |
| Trade receivables, net                            | (1)               | 40                        | 240                           |                    | 279              |
| Prepaid expenses, taxes and other current assets  | 578               | 83                        | 762                           | (549)              | 874              |
| <b>Total current assets</b>                       | <b>(1,649)</b>    | <b>2,348</b>              | <b>1,319</b>                  | <b>(549)</b>       | <b>1,469</b>     |
| Property and equipment, net                       | 1                 | 526                       | 246                           |                    | 773              |
| Intangible assets, net                            | 184               | 4,764                     | 530                           |                    | 5,478            |
| Intercompany balances                             | (757)             | 727                       | 30                            |                    |                  |
| Goodwill  |                   | 6,166                     | 785                           |                    | 6,951            |
| Investment in subsidiaries                        | 13,074            | 1,757                     |                               | (14,831)           |                  |
| <b>Total Assets</b>                               | <b>\$ 10,853</b>  | <b>\$ 16,288</b>          | <b>\$ 2,910</b>               | <b>\$ (15,380)</b> | <b>\$ 14,671</b> |
| <b>Liabilities and Stockholder's Equity</b>       |                   |                           |                               |                    |                  |
| Current:  |                   |                           |                               |                    |                  |
| Short-term and current portion of long-term debt  | \$ 37             | \$ 2                      | \$ 6                          | \$                 | \$ 45            |
| Accounts payable and other current liabilities    | 194               | 1,332                     | 904                           | (549)              | 1,881            |
| <b>Total current liabilities</b>                  | <b>231</b>        | <b>1,334</b>              | <b>910</b>                    | <b>(549)</b>       | <b>1,926</b>     |
| Long-term debt                                    | 7,053             | 3                         | 338                           |                    | 7,394            |
| Intercompany debt                                 |                   | 246                       | (129)                         | (117)              |                  |
| Deferred income taxes                             | (5)               | 1,631                     | 151                           |                    | 1,777            |
| <b>Total liabilities</b>                          | <b>7,279</b>      | <b>3,214</b>              | <b>1,270</b>                  | <b>(666)</b>       | <b>11,097</b>    |
| <b>Total stockholder's equity</b>                 | <b>3,574</b>      | <b>13,074</b>             | <b>1,640</b>                  | <b>(14,714)</b>    | <b>3,574</b>     |
| <b>Total Liabilities and Stockholder's Equity</b> | <b>\$ 10,853</b>  | <b>\$ 16,288</b>          | <b>\$ 2,910</b>               | <b>\$ (15,380)</b> | <b>\$ 14,671</b> |



**Table of Contents****Supplemental Condensed Consolidating Balance Sheet**

(in millions)

|   | September 30, 2007 |                           |                               |                    |                  |
|---|--------------------|---------------------------|-------------------------------|--------------------|------------------|
|   | Parent<br>Company  | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations       | Consolidated     |
| <b>Assets</b>                                     |                    |                           |                               |                    |                  |
| Current:  |                    |                           |                               |                    |                  |
| Cash and cash equivalents                         | \$ 19              | \$ (8)                    | \$ 351                        | \$                 | \$ 362           |
| Intercompany balances                             | (4,338)            | 4,330                     | 8                             |                    |                  |
| Trade receivables, net                            |                    | 56                        | 228                           |                    | 284              |
| Prepaid expenses, taxes and other current assets  | 1,280              | 88                        | 865                           | (1,249)            | 984              |
| <b>Total current assets</b>                       | <b>(3,039)</b>     | <b>4,466</b>              | <b>1,452</b>                  | <b>(1,249)</b>     | <b>1,630</b>     |
| Property and equipment, net                       | 1                  | 569                       | 285                           |                    | 855              |
| Intangible assets, net                            | 159                | 4,498                     | 646                           |                    | 5,303            |
| Intercompany balances                             | 685                | (715)                     | 30                            |                    |                  |
| Goodwill  |                    | 6,225                     | 929                           |                    | 7,154            |
| Investment in subsidiaries                        | 13,163             | 2,128                     |                               | (15,291)           |                  |
| <b>Total Assets</b>                               | <b>\$ 10,969</b>   | <b>\$ 17,171</b>          | <b>\$ 3,342</b>               | <b>\$ (16,540)</b> | <b>\$ 14,942</b> |
| <b>Liabilities and Stockholder's Equity</b>       |                    |                           |                               |                    |                  |
| Current:  |                    |                           |                               |                    |                  |
| Short-term and current portion of long-term debt  | \$ 40              | \$ 8                      | \$ 7                          | \$                 | \$ 55            |
| Accounts payable and other current liabilities    | 165                | 2,039                     | 1,011                         | (1,249)            | 1,966            |
| <b>Total current liabilities</b>                  | <b>205</b>         | <b>2,047</b>              | <b>1,018</b>                  | <b>(1,249)</b>     | <b>2,021</b>     |
| Long-term debt                                    | 7,227              | 6                         | 376                           |                    | 7,609            |
| Intercompany debt                                 | (3)                | 349                       | (168)                         | (178)              |                  |
| Deferred income taxes                             | 8                  | 1,606                     | 166                           |                    | 1,780            |
| <b>Total liabilities</b>                          | <b>7,437</b>       | <b>4,008</b>              | <b>1,392</b>                  | <b>(1,427)</b>     | <b>11,410</b>    |
| <b>Total stockholder's equity</b>                 | <b>3,532</b>       | <b>13,163</b>             | <b>1,950</b>                  | <b>(15,113)</b>    | <b>3,532</b>     |
| <b>Total Liabilities and Stockholder's Equity</b> | <b>\$ 10,969</b>   | <b>\$ 17,171</b>          | <b>\$ 3,342</b>               | <b>\$ (16,540)</b> | <b>\$ 14,942</b> |

**Table of Contents****Supplemental Condensed Consolidating Schedule of Operations**

| (in millions)   | Three Months Ended September 30, 2006 |                        |                            |              |              |
|---|---------------------------------------|------------------------|----------------------------|--------------|--------------|
|   | Parent Company                        | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Total revenue   | \$                                    | \$ 782                 | \$ 313                     | \$ (27)      | \$ 1,068     |
| Costs and expenses:                                   |                                       |                        |                            |              |              |
| Cost of sales and direct operating                    |                                       | 353                    | 167                        | (27)         | 493          |
| Sales, marketing and administration                   | 29                                    | 117                    | 69                         |              | 215          |
| Product development                                   |                                       | 43                     | 20                         |              | 63           |
| Depreciation and amortization                         |                                       | 43                     | 17                         |              | 60           |
| Amortization of acquisition-related intangible assets | 1                                     | 82                     | 16                         |              | 99           |
| Merger costs  | 2                                     |                        |                            |              | 2            |
|   | 32                                    | 638                    | 289                        | (27)         | 932          |
| Income (loss) from operations                         | (32)                                  | 144                    | 24                         |              | 136          |
| Net interest income (expense)                         | (157)                                 | (1)                    | (3)                        |              | (161)        |
| Other income (expense)                                | 5                                     | 17                     | (3)                        | (23)         | (4)          |
| Income (loss) before income taxes                     | (184)                                 | 160                    | 18                         | (23)         | (29)         |
| Provision (benefit) for income taxes                  | (153)                                 | 155                    |                            |              | 2            |
| Net income (loss)                                     | \$ (31)                               | \$ 5                   | \$ 18                      | \$ (23)      | \$ (31)      |

**Supplemental Condensed Consolidating Schedule of Operations**

| (in millions)   | Three Months Ended September 30, 2007 |                        |                            |              |              |
|---|---------------------------------------|------------------------|----------------------------|--------------|--------------|
|   | Parent Company                        | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Total revenue   | \$                                    | \$ 858                 | \$ 400                     | \$ (36)      | \$ 1,222     |
| Costs and expenses:                                   |                                       |                        |                            |              |              |
| Cost of sales and direct operating                    |                                       | 375                    | 242                        | (36)         | 581          |
| Sales, marketing and administration                   | 27                                    | 125                    | 88                         |              | 240          |
| Product development                                   |                                       | 60                     | 4                          |              | 64           |
| Depreciation and amortization                         |                                       | 47                     | 16                         |              | 63           |
| Amortization of acquisition-related intangible assets | 1                                     | 84                     | 25                         |              | 110          |
| Merger costs  |                                       |                        |                            |              |              |
|   | 28                                    | 691                    | 375                        | (36)         | 1,058        |
| Income (loss) from operations                         | (28)                                  | 167                    | 25                         |              | 164          |
| Net interest income (expense)                         | (152)                                 | (5)                    |                            |              | (157)        |
| Other income (expense)                                | 175                                   | 6                      | (11)                       | (181)        | (11)         |
| Income (loss) before income taxes                     | (5)                                   | 168                    | 14                         | (181)        | (4)          |
| Provision (benefit) for income taxes                  | (16)                                  | (7)                    | 8                          |              | (15)         |
| Net income (loss)                                     | \$ 11                                 | \$ 175                 | \$ 6                       | \$ (181)     | \$ 11        |



**Table of Contents****Supplemental Condensed Consolidating Schedule of Operations**

| (in millions)   | Nine Months Ended September 30, 2006 |                        |                            |              |              |
|---|--------------------------------------|------------------------|----------------------------|--------------|--------------|
|   | Parent Company                       | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Total revenue   | \$                                   | \$ 2,299               | \$ 944                     | \$ (108)     | \$ 3,135     |
| Costs and expenses:                                   |                                      |                        |                            |              |              |
| Cost of sales and direct operating                    |                                      | 1,087                  | 481                        | (108)        | 1,460        |
| Sales, marketing and administration                   | 82                                   | 364                    | 213                        |              | 659          |
| Product development                                   |                                      | 129                    | 62                         |              | 191          |
| Depreciation and amortization                         |                                      | 127                    | 48                         |              | 175          |
| Amortization of acquisition-related intangible assets | 2                                    | 246                    | 49                         |              | 297          |
| Merger costs  | 5                                    |                        |                            |              | 5            |
|   | 89                                   | 1,953                  | 853                        | (108)        | 2,787        |
| Income (loss) from operations                         | (89)                                 | 346                    | 91                         |              | 348          |
| Net interest income (expense)                         | (465)                                | (8)                    |                            |              | (473)        |
| Other income (expense)                                | 160                                  | 51                     | (17)                       | (216)        | (22)         |
| Income (loss) before income taxes                     | (394)                                | 389                    | 74                         | (216)        | (147)        |
| Provision (benefit) for income taxes                  | (287)                                | 228                    | 19                         |              | (40)         |
| Net income (loss)                                     | \$ (107)                             | \$ 161                 | \$ 55                      | \$ (216)     | \$ (107)     |

**Supplemental Condensed Consolidating Schedule of Operations**

| (in millions)   | Nine Months Ended September 30, 2007 |                        |                            |              |              |
|---|--------------------------------------|------------------------|----------------------------|--------------|--------------|
|   | Parent Company                       | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Total revenue   | \$                                   | \$ 2,485               | \$ 1,128                   | \$ (100)     | \$ 3,513     |
| Costs and expenses:                                   |                                      |                        |                            |              |              |
| Cost of sales and direct operating                    |                                      | 1,121                  | 628                        | (100)        | 1,649        |
| Sales, marketing and administration                   | 90                                   | 401                    | 257                        |              | 748          |
| Product development                                   |                                      | 150                    | 52                         |              | 202          |
| Depreciation and amortization                         |                                      | 134                    | 49                         |              | 183          |
| Amortization of acquisition-related intangible assets | 2                                    | 259                    | 58                         |              | 319          |
| Merger costs  |                                      |                        |                            |              |              |
|   | 92                                   | 2,065                  | 1,044                      | (100)        | 3,101        |
| Income (loss) from operations                         | (92)                                 | 420                    | 84                         |              | 412          |
| Net interest income (expense)                         | (463)                                | (5)                    | (4)                        |              | (472)        |
| Other income (expense)                                | 320                                  | 39                     | (26)                       | (384)        | (51)         |
| Income (loss) before income taxes                     | (235)                                | 454                    | 54                         | (384)        | (111)        |
| Provision (benefit) for income taxes                  | (145)                                | 106                    | 18                         |              | (21)         |
| Net income (loss)                                     | \$ (90)                              | \$ 348                 | \$ 36                      | \$ (384)     | \$ (90)      |



**Table of Contents****Supplemental Condensed Consolidating Schedule of Cash Flows**

(in millions)

|   | Nine Months Ended September 30, 2006 |                        |                            |              |              |
|---|--------------------------------------|------------------------|----------------------------|--------------|--------------|
|   | Parent Company                       | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| <b>Cash Flow From Operations</b>                              |                                      |                        |                            |              |              |
| Net income (loss)   | \$ (107)                             | \$ 161                 | \$ 55                      | \$ (216)     | \$ (107)     |
| Non cash adjustments  | (105)                                | 194                    | 85                         | 216          | 390          |
| Changes in operating assets and liabilities                   | (271)                                | 235                    | (33)                       |              | (69)         |
| Cash flow provided by (used in) operations                    | (483)                                | 590                    | 107                        |              | 214          |
| <b>Investment Activities</b>                                  |                                      |                        |                            |              |              |
| Intercompany transactions                                     | 462                                  | (395)                  | (67)                       |              |              |
| Cash paid for businesses acquired by the Company, net of cash |                                      | (24)                   |                            |              | (24)         |
| Cash paid for property and equipment and software             |                                      | (169)                  | (53)                       |              | (222)        |
| Other investing activities                                    | (6)                                  | 8                      | 6                          |              | 8            |
| Cash provided by (used in) investment activities              | 456                                  | (580)                  | (114)                      |              | (238)        |
| <b>Financing Activities</b>                                   |                                      |                        |                            |              |              |
| Net borrowings (repayments) of long-term debt                 | (28)                                 | (3)                    | (6)                        |              | (37)         |
| Cash advances to Parent                                       | (3)                                  |                        |                            |              | (3)          |
| Cash provided by (used in) financing activities               | (31)                                 | (3)                    | (6)                        |              | (40)         |
| Effect of exchange rate changes on cash                       |                                      |                        | 15                         |              | 15           |
| Increase (decrease) in cash and cash equivalents              | (58)                                 | 7                      | 2                          |              | (49)         |
| Beginning cash and cash equivalents                           | 74                                   | (8)                    | 251                        |              | 317          |
| Ending cash and cash equivalents                              | \$ 16                                | \$ (1)                 | \$ 253                     | \$           | \$ 268       |

**Table of Contents****Supplemental Condensed Consolidating Schedule of Cash Flows**

(in millions)

Nine Months Ended September 30, 2007

|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-------------------|---------------------------|-------------------------------|--------------|--------------|
| <b>Cash Flow From Operations</b>                              |                   |                           |                               |              |              |
| Net income (loss)   | \$ (90)           | \$ 348                    | \$ 36                         | \$ (384)     | \$ (90)      |
| Non cash adjustments  | (290)             | 295                       | 100                           | 384          | 489          |
| Changes in operating assets and liabilities                   | (727)             | 660                       | (3)                           |              | (70)         |
| Cash flow provided by (used in) operations                    | (1,107)           | 1,303                     | 133                           |              | 329          |
| <b>Investment Activities</b>                                  |                   |                           |                               |              |              |
| Intercompany transactions                                     | 916               | (950)                     | 34                            |              |              |
| Cash paid for businesses acquired by the Company, net of cash |                   | (195)                     | (28)                          |              | (223)        |
| Cash paid for property and equipment and software             |                   | (138)                     | (75)                          |              | (213)        |
| Other investing activities                                    | 4                 | (3)                       | 6                             |              | 7            |
| Cash provided by (used in) investment activities              | 920               | (1,286)                   | (63)                          |              | (429)        |
| <b>Financing Activities</b>                                   |                   |                           |                               |              |              |
| Net borrowings (repayments) of long-term debt                 | 164               | (5)                       | (7)                           |              | 152          |
| Other financing activities                                    | (14)              | (1)                       |                               |              | (15)         |
| Cash provided by (used in) financing activities               | 150               | (6)                       | (7)                           |              | 137          |
| Effect of exchange rate changes on cash                       |                   |                           | 9                             |              | 9            |
| Increase (decrease) in cash and cash equivalents              | (37)              | 11                        | 72                            |              | 46           |
| Beginning cash and cash equivalents                           | 56                | (19)                      | 279                           |              | 316          |
| Ending cash and cash equivalents                              | \$ 19             | \$ (8)                    | \$ 351                        | \$           | \$ 362       |

**Table of Contents****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 Company's Annual Report on Form 10-K for the year ended December 31, 2006 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.

**Results of Operations:**

The following table sets forth, for the periods indicated, certain amounts included in our Consolidated Statements of Operations, the relative percentage that those amounts represent to consolidated revenue (unless otherwise indicated), and the percentage change in those amounts from period to period.

|   | Three Months Ended September 30, 2006 |      | Three Months Ended September 30, 2007 |      | Percent Increase (Decrease) 2007 vs. 2006 | Nine Months Ended September 30, 2006 |      | Nine Months Ended September 30, 2007 |      | Percent Increase (Decrease) 2007 vs. 2006 |
|---|---------------------------------------|------|---------------------------------------|------|---|--------------------------------------|------|--------------------------------------|------|---|
|   | percent of revenue                    |      | percent of revenue                    |      |   | percent of revenue                   |      | percent of revenue                   |      |   |
| (in millions)   |                                       |      |                                       |      |   |                                      |      |                                      |      |   |
| <b>Revenue</b>  |                                       |      |                                       |      |   |                                      |      |                                      |      |   |
| Financial systems (FS)                                    | \$ 502                                | 47%  | \$ 622                                | 51%  | 24%                                       | \$ 1,467                             | 47%  | \$ 1,755                             | 50%  | 20%                                       |
| Higher education and public sector systems (HEPS)         | 226                                   | 21%  | 231                                   | 19%  | 2%  | 661                                  | 21%  | 695                                  | 20%  | 5%  |
| Software & processing solutions                           | 728                                   | 68%  | 853                                   | 70%  | 17%                                       | 2,128                                | 68%  | 2,450                                | 70%  | 15%                                       |
| Availability services (AS)                                | 340                                   | 32%  | 369                                   | 30%  | 9%  | 1,007                                | 32%  | 1,063                                | 30%  | 6%  |
|   | \$ 1,068                              | 100% | \$ 1,222                              | 100% | 14%                                       | \$ 3,135                             | 100% | \$ 3,513                             | 100% | 12%                                       |
| <b>Costs and Expenses</b>                                 |                                       |      |                                       |      |   |                                      |      |                                      |      |   |
| Cost of sales and direct operating                        | \$ 493                                | 46%  | \$ 581                                | 48%  | 18%                                       | \$ 1,460                             | 47%  | \$ 1,649                             | 47%  | 13%                                       |
| Sales, marketing and administration                       | 215                                   | 20%  | 240                                   | 20%  | 12%                                       | 659                                  | 21%  | 748                                  | 21%  | 14%                                       |
| Product development                                       | 63                                    | 6%   | 64                                    | 5%   | 2%  | 191                                  | 6%   | 202                                  | 6%   | 6%  |
| Depreciation and amortization                             | 60                                    | 6%   | 63                                    | 5%   | 5%  | 175                                  | 6%   | 183                                  | 5%   | 5%  |
| Amortization of acquisition-related intangible assets     | 99                                    | 9%   | 110                                   | 9%   | 11%                                       | 297                                  | 9%   | 319                                  | 9%   | 7%  |
| Merger and other costs                                    | 2                                     | %    |                                       | %    | (100%)                                    | 5                                    | %    |                                      | %    | (100%)                                    |
|   | \$ 932                                | 87%  | \$ 1,058                              | 87%  | 14%                                       | \$ 2,787                             | 89%  | \$ 3,101                             | 88%  | 11%                                       |
| <b>Operating Income</b>                                   |                                       |      |                                       |      |   |                                      |      |                                      |      |   |
| Financial systems <sup>(1)</sup>                          | \$ 59                                 | 12%  | \$ 67                                 | 11%  | 14%                                       | \$ 144                               | 10%  | \$ 180                               | 10%  | 25%                                       |
| Higher education and public sector systems <sup>(1)</sup> | 35                                    | 15%  | 37                                    | 16%  | 6%  | 91                                   | 14%  | 109                                  | 16%  | 20%                                       |



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|                                     |        |      |        |      |        |        |      |        |      |        |
|-------------------------------------|--------|------|--------|------|--------|--------|------|--------|------|--------|
| Software & processing solutions (1) | 94     | 13%  | 104    | 12%  | 11%    | 235    | 11%  | 289    | 12%  | 23%    |
| Availability services (1)           | 74     | 22%  | 84     | 23%  | 14%    | 201    | 20%  | 212    | 20%  | 5%     |
| Corporate administration            | (30)   | (3)% | (24)   | (2)% | (20%)  | (83)   | (3)% | (89)   | (3)% | 7%     |
| Merger and other costs              | (2)    | %    |        | %    | (100%) | (5)    | %    |        | %    | (100%) |
|                                     | \$ 136 | 13%  | \$ 164 | 13%  | 21%    | \$ 348 | 11%  | \$ 412 | 12%  | 18%    |

(1) Percent of revenue is calculated as a percent of revenue from FS, HEPS, Software & Processing Solutions, and AS, respectively.  
 Note: Percentages may not add due to rounding.

**Table of Contents**

The following table sets forth, for the periods indicated, certain supplemental revenue data, the relative percentage that those amounts represent to total revenue and the percentage change in those amounts from period to period.

| (in millions)                                     | Three Months Ended<br>September 30,<br>2006 |     | Three Months Ended<br>September 30,<br>2007 |     | Percent Increase<br>(Decrease)<br>2007 vs. 2006 | Nine Months Ended<br>September 30,<br>2006 |     | Nine Months Ended<br>September 30,<br>2007 |     | Percent Increase<br>(Decrease)<br>2007 vs. 2006 |
|---|---|-----|---|-----|---|--|-----|--|-----|---|
|   | percent of<br>revenue                       |     | percent of<br>revenue                       |     |   | percent of<br>revenue                      |     | percent of<br>revenue                      |     |   |
| <b>Financial Systems</b>                          |   |     |   |     |   |  |     |  |     |   |
| Services  | \$ 444                                      | 42% | \$ 544                                      | 45% | 23%   | \$ 1,296                                   | 41% | \$ 1,540                                   | 44% | 19%   |
| License and resale fees                           | 39  | 4%  | 48  | 4%  | 23%   | 111  | 4%  | 137  | 4%  | 23%   |
| Total products and services                       | 483   | 45% | 592   | 48% | 23%   | 1,407                                      | 45% | 1,677                                      | 48% | 19%   |
| Reimbursed expenses                               | 19  | 2%  | 30  | 2%  | 58%   | 60   | 2%  | 78   | 2%  | 30%   |
|   | \$ 502                                      | 47% | \$ 622                                      | 51% | 24%   | \$ 1,467                                   | 47% | \$ 1,755                                   | 50% | 20%   |
| <b>Higher Education and Public Sector Systems</b> |   |     |   |     |   |  |     |  |     |   |
| Services  | \$ 182                                      | 17% | \$ 190                                      | 16% | 4%  | \$ 553                                     | 18% | \$ 577                                     | 16% | 4%  |
| License and resale fees                           | 40  | 4%  | 38  | 3%  | (5%)  | 98   | 3%  | 108  | 3%  | 10%   |
| Total products and services                       | 222   | 21% | 228   | 19% | 3%  | 651  | 21% | 685  | 19% | 5%  |
| Reimbursed expenses                               | 4   | %   | 3   | %   |   |  |     |  |     |   |