

SUNGARD CAPITAL CORP
Form 10-Q
August 13, 2014
Table of Contents

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 June 30, 2014**

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 numbers:

SunGard Capital Corp.	000-53653
SunGard Capital Corp. II	000-53654
SunGard Data Systems Inc.	001-12989

SunGard® Capital Corp.

SunGard® Capital Corp. II

SunGard® Data Systems Inc.

(Exact name of registrant as specified in its charter)

Delaware	20-3059890
Delaware	20-3060101
Delaware	51-0267091
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
680 East Swedesford Road, Wayne, Pennsylvania 19087	

(Address of principal executive offices, including zip code)

484-582-2000

(Registrants 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.

SunGard Capital Corp.	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
SunGard Capital Corp. II	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
SunGard Data Systems Inc.	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

SunGard Capital Corp.	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
SunGard Capital Corp. II	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
SunGard Data Systems Inc.	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>

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

SunGard Capital Corp.	Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
SunGard Capital Corp. II	Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
SunGard Data Systems Inc.	Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

SunGard Capital Corp.	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
SunGard Capital Corp. II	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
SunGard Data Systems Inc.	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>

The number of shares of the registrants' common stock outstanding as of June 30, 2014:

SunGard Capital Corp.	257,224,705 shares of Class A common stock and 28,580,521 shares of Class L common stock
SunGard Capital Corp. II	100 shares of common stock
SunGard Data Systems Inc.	100 shares of common stock

Table of Contents

SUNGARD CAPITAL CORP.

SUNGARD CAPITAL CORP. II

SUNGARD DATA SYSTEMS INC.

AND SUBSIDIARIES

INDEX

	PAGE
PART I. <u>FINANCIAL INFORMATION</u>	1
Item 1. <u>Financial Statements:</u>	2
SunGard Capital Corp.	
<u>Consolidated Balance Sheets as of December 31, 2013 and June 30, 2014 (unaudited)</u>	2
<u>Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2013 and 2014 (unaudited)</u>	3
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2014 (unaudited)</u>	4
SunGard Capital Corp. II	
<u>Consolidated Balance Sheets as of December 31, 2013 and June 30, 2014 (unaudited)</u>	5
<u>Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2013 and 2014 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2014 (unaudited)</u>	7
SunGard Data Systems Inc.	
<u>Consolidated Balance Sheets as of December 31, 2013 and June 30, 2014 (unaudited)</u>	8
<u>Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2013 and 2014 (unaudited)</u>	9
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2014 (unaudited)</u>	10
<u>Notes to Consolidated Financial Statements (unaudited)</u>	11
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	47
Item 4. <u>Controls and Procedures</u>	48
PART II. <u>OTHER INFORMATION</u>	49
Item 1. <u>Legal Proceedings</u>	49

Item 1A.	<u>Risk Factors</u>	49
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	49
Item 3.	<u>Defaults upon Senior Securities</u>	49
Item 4.	<u>Mine Safety Disclosures</u>	49
Item 5.	<u>Other Information</u>	49
Item 6.	<u>Exhibits</u>	49
	<u>SIGNATURES</u>	50

Table of Contents

PART I. FINANCIAL INFORMATION

Explanatory Note

This Quarterly Report on Form 10-Q (Report) is a combined quarterly report being filed separately by three registrants: SunGard Capital Corp. (SCC), SunGard Capital Corp. II (SCCII) and SunGard Data Systems Inc. (SunGard). SCC and SCCII are collectively referred to as the Parent Companies. Unless the context indicates otherwise, any reference in this report to the Company, we, us and our refer to the Parent Companies together with their direct and indirect subsidiaries, including SunGard. Each registrant hereto is filing on its own behalf all of the information contained in this quarterly report that relates to such registrant. Each registrant hereto is not filing any information that does not relate to such registrant, and therefore makes no representation as to any such information.

Table of Contents**ITEM 1. FINANCIAL STATEMENTS****SunGard Capital Corp.****Consolidated Balance Sheets****(In millions except share and per-share amounts)****(Unaudited)**

	December 31, 2013	June 30, 2014
Assets		
Current:		
Cash and cash equivalents	\$ 675	\$ 314
Trade receivables, less allowance for doubtful accounts of \$17 and \$19	565	443
Earned but unbilled receivables	92	97
Prepaid expenses and other current assets	127	149
Assets of discontinued operations	2,516	
Total current assets	3,975	1,003
Property and equipment, less accumulated depreciation of \$376 and \$398	152	152
Software products, less accumulated amortization of \$1,644 and \$1,717	270	229
Customer base, less accumulated amortization of \$486 and \$514	421	390
Other assets, less accumulated amortization of \$21 and \$22	113	105
Trade name	1,019	672
Goodwill	3,828	3,827
Total Assets	\$ 9,778	\$ 6,378
Liabilities and Equity		
Current:		
Short-term and current portion of long-term debt	\$ 290	\$ 2
Accounts payable	8	11
Accrued compensation and benefits	245	160
Accrued interest expense	40	29
Other accrued expenses	129	101
Deferred revenue	589	563
Liabilities of discontinued operations	799	
Total current liabilities	2,100	866
Long-term debt	6,094	4,669
Deferred and other income taxes	746	649
Other long-term liabilities	39	43

Total liabilities	8,979	6,227
Commitments and contingencies		
Noncontrolling interest in preferred stock of SCCII subject to a put option	42	32
Class L common stock subject to a put option	58	53
Class A common stock subject to a put option	4	3
Stockholders' equity:		
Class L common stock, convertible, par value \$.001 per share; cumulative 13.5% per annum, compounded quarterly; aggregate liquidation preference of \$7,040 million and \$7,535 million; 50,000,000 shares authorized, 29,062,421 and 29,062,421 shares issued		
Class A common stock, par value \$.001 per share; 550,000,000 shares authorized, 261,565,118 and 261,565,118 shares issued		
Capital in excess of par value	2,482	2,666
Treasury stock, 528,709 and 481,900 shares of Class L common stock; and 4,761,694 and 4,340,413 shares of Class A common stock	(47)	(42)
Accumulated deficit	(3,497)	(3,920)
Accumulated other comprehensive income (loss)	16	(47)
Total SunGard Capital Corp. stockholders' equity (deficit)	(1,046)	(1,343)
Noncontrolling interest in preferred stock of SCCII	1,741	1,406
Total equity	695	63
Total Liabilities and Equity	\$ 9,778	\$ 6,378

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

Table of Contents**SunGard Capital Corp.****Consolidated Statements of Comprehensive Income (Loss)****(In millions)****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Revenue:				
Services	\$ 596	\$ 617	\$ 1,194	\$ 1,218
License and resale fees	67	47	100	91
Total products and services	663	664	1,294	1,309
Reimbursed expenses	9	9	17	17
Total revenue	672	673	1,311	1,326
Costs and expenses:				
Cost of sales and direct operating (excluding depreciation)	252	265	513	528
Sales, marketing and administration	159	162	314	332
Product development and maintenance	98	101	206	204
Depreciation	25	27	49	51
Amortization of acquisition-related intangible assets	47	41	95	84
Trade name impairment charges				339
Total costs and expenses	581	596	1,177	1,538
Operating income (loss)	91	77	134	(212)
Interest income		1		1
Interest expense and amortization of deferred financing fees	(79)	(73)	(169)	(147)
Loss on extinguishment of debt			(5)	(61)
Other income (expense)	(2)		(2)	
Income (loss) from continuing operations before income taxes	10	5	(42)	(419)
Benefit from (provision for) income taxes	(5)	(2)	12	99
Income (loss) from continuing operations	5	3	(30)	(320)
Income (loss) from discontinued operations, net of tax	10		(2)	(17)
Net income (loss)	15	3	(32)	(337)
(Income) attributable to the noncontrolling interest	(47)	(40)	(72)	(90)

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Net income (loss) attributable to SunGard Capital Corp.	(32)	(37)	(104)	(427)
Other comprehensive income (loss):				
Foreign currency translation, net	2	(1)	(44)	(61)
Unrealized gain (loss) on derivative instruments, net of tax	(1)	(5)	1	(2)
Other, net of tax	(5)		(5)	
Other comprehensive income (loss), net of tax	(4)	(6)	(48)	(63)
Comprehensive income (loss)	11	(3)	(80)	(400)
Comprehensive (income) loss attributable to the noncontrolling interest	(47)	(40)	(72)	(90)
Comprehensive income (loss) attributable to SunGard Capital Corp.	\$ (36)	\$ (43)	\$ (152)	\$ (490)

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

Table of Contents**SunGard Capital Corp.****Consolidated Statements of Cash Flows****(In millions)****(Unaudited)**

	Six Months Ended June 30,	
	2013	2014
<i>Cash flow from operations:</i>		
Net income (loss)	\$ (32)	\$ (337)
Income (loss) from discontinued operations	(2)	(17)
Income (loss) from continuing operations	(30)	(320)
Reconciliation of income (loss) from continuing operations to cash flow from (used in) operations:		
Depreciation and amortization	144	135
Trade name impairment charge		339
Deferred income tax provision (benefit)	(13)	(90)
Stock compensation expense	20	20
Amortization of deferred financing costs and debt discount	24	10
Loss on extinguishment of debt	5	61
Other noncash items	2	
Changes in working capital:		
Accounts receivable and other current assets	121	112
Accounts payable and accrued expenses	(114)	(153)
Deferred revenue	(25)	(28)
Cash flow from (used in) continuing operations	134	86
Cash flow from (used in) discontinued operations	170	34
Cash flow from (used in) operations	304	120
<i>Investment activities:</i>		
Cash paid for acquired businesses, net of cash acquired	(1)	
Cash paid for property and equipment, and software	(46)	(58)
Cash provided by (used in) continuing operations	(47)	(58)
Cash provided by (used in) discontinued operations	(54)	5
Cash provided by (used in) investment activities	(101)	(53)
<i>Financing activities:</i>		
Cash received from borrowings, net of fees	2,173	(7)

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Cash used to repay debt	(2,359)	(1,324)
Cash used to purchase treasury stock	(6)	(7)
Other financing activities	(7)	(9)
Cash provided by (used in) continuing operations	(199)	(1,347)
Cash provided by (used in) discontinued operations		887
Cash provided by (used in) financing activities	(199)	(460)
Effect of exchange rate changes on cash	(12)	1
Increase (decrease) in cash and cash equivalents	(8)	(392)
Beginning cash and cash equivalents, including cash of discontinued operations: 2013, \$11; 2014, \$31	546	706
Ending cash and cash equivalents, including cash of discontinued operations: 2013, \$36; 2014, \$	\$ 538	\$ 314
<i>Supplemental information:</i>		
Interest paid	\$ 183	\$ 166
Income taxes paid, net of refunds of \$4 million, \$12 million, respectively	\$ 52	\$ 23
Non-cash financing activities:		
Distribution of net assets of SpinCo (see Note 1)	\$	\$ 223
Receipt of SpinCo Notes in connection with the split-off (see Note 1)	\$	\$ 425
Exchange of SpinCo Notes for SunGard Notes (see Note 6)	\$	\$ 389

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

Table of Contents**SunGard Capital Corp. II****Consolidated Balance Sheets****(In millions except share and per-share amounts)****(Unaudited)**

	December 31, 2013	June 30, 2014
Assets		
Current:		
Cash and cash equivalents	\$ 675	\$ 314
Trade receivables, less allowance for doubtful accounts of \$17 and \$19	565	443
Earned but unbilled receivables	92	97
Prepaid expenses and other current assets	127	149
Assets of discontinued operations	2,516	
Total current assets	3,975	1,003
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Customer base, less accumulated amortization of \$486 and \$514	421	390
Other assets, less accumulated amortization of \$21 and \$22	113	105
Trade name	1,019	672
Goodwill	3,828	3,827
Total Assets	\$ 9,778	\$ 6,378
Liabilities and Stockholders Equity		
Current:		
Short-term and current portion of long-term debt	\$ 290	\$ 2
Accounts payable	8	11
Accrued compensation and benefits	245	160
Accrued interest expense	40	29
Other accrued expenses	128	99
Deferred revenue	589	563
Liabilities of discontinued operations	799	
Total current liabilities	2,099	864
Long-term debt	6,094	4,669
Deferred and other income taxes	746	649
Other long-term liabilities	22	32
Total liabilities	8,961	6,214

Commitments and contingencies		
Preferred stock subject to a put option	37	28
Stockholders' equity:		
Preferred stock, par value \$.001 per share; cumulative 11.5% per annum, compounded quarterly; aggregate liquidation preference of \$1,752 million and \$1,414 million; 14,999,000 shares authorized, 10,060,069 and 10,060,069 issued		
Common stock, par value \$.001 per share; 1,000 shares authorized, 100 shares issued and outstanding		
Capital in excess of par value	3,501	3,509
Treasury stock, 183,014 and 2,526,769 shares	(29)	(285)
Accumulated deficit	(2,708)	(3,041)
Accumulated other comprehensive income (loss)	16	(47)
Total stockholders' equity	780	136
Total Liabilities and Stockholders' Equity	\$ 9,778	\$ 6,378

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

Table of Contents**SunGard Capital Corp. II****Consolidated Statements of Comprehensive Income (Loss)****(In millions)****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Revenue:				
Services	\$ 596	\$ 617	\$ 1,194	\$ 1,218
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Total costs and expenses	581	596	1,177	1,538
Operating income (loss)	91	77	134	(212)
Interest income		1		1
Interest expense and amortization of deferred financing fees	(79)	(73)	(169)	(147)
Loss on extinguishment of debt			(5)	(61)
Other income (expense)	(2)		(2)	
Income (loss) from continuing operations before income taxes	10	5	(42)	(419)
Benefit from (provision for) income taxes	(5)	(2)	12	99
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Income (loss) from discontinued operations, net of tax	10		(2)	(17)
Net income (loss)	15	3	(32)	(337)
Other comprehensive income (loss):				

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Foreign currency translation, net	2	(1)	(44)	(61)
Unrealized gain (loss) on derivative instruments, net of tax	(1)	(5)	1	(2)
Other, net of tax	(5)		(5)	
Other comprehensive income (loss)	(4)	(6)	(48)	(63)
Comprehensive income (loss)	\$ 11	\$ (3)	\$ (80)	\$ (400)

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Table of Contents**SunGard Capital Corp. II****Consolidated Statements of Cash Flows****(In millions)****(Unaudited)**

	Six Months Ended June 30,	
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Amortization of deferred financing costs and debt discount	24	10
Loss on extinguishment of debt	5	61
Other noncash items	2	
Changes in working capital:		
Accounts receivable and other current assets	121	112
Accounts payable and accrued expenses	(112)	(153)
Deferred revenue	(25)	(28)
Cash flow from (used in) continuing operations	136	86
Cash flow from (used in) discontinued operations	170	34
Cash flow from (used in) operations	306	120
<i>Investment activities:</i>		
Cash paid for acquired businesses, net of cash acquired	(1)	
Cash paid for property and equipment, and software	(46)	(58)
Cash provided by (used in) continuing operations	(47)	(58)
Cash provided by (used in) discontinued operations	(54)	5
Cash provided by (used in) investment activities	(101)	(53)
<i>Financing activities:</i>		
Cash received from borrowings, net of fees	2,173	(7)
Cash used to repay debt	(2,359)	(1,324)

Cash used to purchase treasury stock	(2)	(3)
Other financing activities		