

SUNGARD DATA SYSTEMS INC  
Form 10-K  
March 16, 2005

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

WASHINGTON, D.C. 20549

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**FORM 10-K**

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(Mark One)

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2004 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 of incorporation)

51-0267091  
(I.R.S. Employer Identification No.)

680 East Swedesford Road, Wayne, Pennsylvania 19087

(Address of principal executive offices, including zip code)

484-582-2000

(Telephone number, including area code)

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**Securities registered pursuant to Section 12(b) of the Act:**

**Common Stock, Par Value \$0.01 Per Share**

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in the definitive proxy statement incorporated by reference into Part III of this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

The aggregate market value of the registrant's voting stock held by nonaffiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was \$7,360,422,018.<sup>(1)</sup>

There were 288,624,732 shares of the registrant's Common Stock outstanding as of March 3, 2005.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for the 2005 annual meeting of stockholders, to be filed with the Securities and Exchange Commission not later than 120 days after the end of the registrant's fiscal year covered by this report, are incorporated by reference into Part III of this Form 10-K.

(1)

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This equals the number of outstanding shares of the registrant's Common Stock, reduced by the number of shares that may be deemed beneficially owned by the registrant's directors, nominees and executive officers, multiplied by the closing price of the registrant's Common Stock reported on June 30, 2004. This information is provided solely for record keeping purposes of the Securities and Exchange Commission and shall not be construed as an admission that any of the registrant's directors, nominees or executive officers is an affiliate of the registrant or is the beneficial owner of any such shares. Any such inference is hereby disclaimed.

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## Forward-Looking Statements

Certain of the matters we discuss in this Report on Form 10-K may constitute forward-looking statements. You can identify forward-looking statements because they contain words such as believes, expects, may, will, should, seeks, approximately, intends, plans, anticipates or similar expressions which concern our strategy, plans or intentions. 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 described some of the factors that we believe could affect our results in Item 7 of this Report under the heading Risk Factors. We assume no obligation to update any written or oral forward-looking statements made by us or on our behalf as a result of new information, future events or other factors.

## PART I

### Item 1. Business

#### Overview

We are a global leader in integrated software and processing solutions, primarily for financial services, and are also the pioneer and leading provider of information availability services. We are an efficient operator of resilient information technology solutions. Our efficiency comes from the economies of scale in serving multiple customers on shared platforms. We support more than 20,000 customers in over 50 countries, including the world's 50 largest financial services companies. We currently operate our business in three segments: Investment Support Systems, Higher Education and Public Sector Systems, and Availability Services. We refer to Investment Support Systems and Higher Education and Public Sector Systems together as our Software & Processing business.

Our previously announced plan to spin off our Availability Services business into a separate publicly traded company is scheduled for completion during the second quarter of 2005. The spin-off may be delayed or may not be completed at all due to a number of factors. See SPIN-OFF OF OUR AVAILABILITY SERVICES BUSINESS below.

In Investment Support Systems, we primarily serve financial services institutions by processing their investment and trading transactions. Our investment support systems are used by customers on both the buy-side and sell-side of the global financial services industry, as well as corporates, energy companies and governments. The principal purpose of most of these systems is to automate the many detailed processes associated with trading securities, managing portfolios and accounting for investment assets. We deliver many of our systems as an application service provider.

In Higher Education and Public Sector Systems, we primarily provide specialized enterprise resource planning and administrative solutions to institutions of higher education, school districts and nonprofit organizations, as well as local, state and federal governments. These solutions include accounting, personnel, fundraising, grant and project management, student administration and reporting for educational and nonprofit organizations and accounting, personnel, utility billing, land management, public safety and justice administration for governments.

In Availability Services, we help our customers maintain uninterrupted access to their information and computer systems by providing cost-effective resources to keep their information technology, or IT, reliable and secure. We offer a continuum of information availability services from always ready standby solutions to always on production services. We also provide professional services to help our customers

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design, implement and maintain the ways they access critical information. To service our more than 10,000 availability services customers, we operate more than 3,000,000 square feet of hardened, secure facilities at over 60 locations in more than 10 countries, and a global network of approximately 25,000 miles. See SPIN-OFF OF OUR AVAILABILITY SERVICES BUSINESS below.

We have grown steadily, both by developing our existing businesses and by buying new businesses that broaden our existing product lines and service offerings. In the past three years, however, nearly all of our revenue growth came from acquisitions. Our acquisition program has been active since our initial public offering in 1986 and has contributed significantly to our long-term growth and success. During 2004, we completed ten acquisitions for an aggregate cash purchase price of approximately \$774 million, net of cash acquired.

Our customer base is concentrated in the financial services industry but is widely diversified from a revenue contribution perspective. Of our more than 20,000 customers, not one accounted for more than two percent of our total 2004 revenue. We seek to establish long-term relationships with customers by selling our products and services under multi-year contracts and by emphasizing customer support and product quality and integration. Our services revenue,

which is largely recurring in nature, is derived from availability services, processing services, software support and rentals, professional services, broker/dealer fees and hardware rentals. Our services revenue accounted for approximately 89% of our total revenue during 2004.

Our operating units are organized into groups that generally mirror the business lines of our customers in order to facilitate product integration and cross-selling. Individual operating units are responsible for sales and marketing, development and customer support of their own products and services. In conjunction with the efforts of our individual operating units, our global account managers focus on our largest financial services customers that use multiple products and services. Our executive management team provides oversight and identifies opportunities to integrate our products and services in order to bring further operational efficiencies to our customers.

### **Spin-Off of Our Availability Services Business**

Our previously announced plan to spin off our Availability Services business into a separate publicly traded company is scheduled for completion during the second quarter of 2005. The spin-off may be delayed or may not be completed at all due to a number of factors, including the board of directors' discretion to delay or cancel the spin-off or the failure to satisfy certain conditions such as obtaining a favorable ruling from the Internal Revenue Service or an acceptable tax opinion.

If the planned spin-off is completed, it will be implemented through a distribution to our stockholders of all of the outstanding shares of SunGard Availability Inc. (SunGard Availability), which, at the time of the spin-off, would hold all of our Availability Services business. As a result, our stockholders as of the record date for the spin-off would own shares in both companies. The distribution of shares is intended to be tax-free to both us and our stockholders. At the time of the spin-off, SunGard Availability would change its name to SunGard Inc., and our company, SunGard Data Systems Inc., would change its name to a new name. After the spin-off is completed, we expect to report the Availability Services business as a discontinued operation, and we will operate our Software & Processing business independently of SunGard Availability.

To implement the spin-off, we plan to enter into a separation and distribution agreement, a transition services agreement, an employee matters agreement and a tax-sharing and indemnification agreement (together with other ancillary agreements) with SunGard Availability. These agreements will provide for the distribution of shares of SunGard Availability, the allocation of tax liabilities, employee benefits, and other liabilities and obligations between the two companies, and other terms of the relationship between the two companies after the spin-off.

### **Business Strategy**

We are focused on expanding our position as a leading provider both of integrated software and processing solutions for financial services, higher education and the public sector, and of availability services for a broad base of information-dependent enterprises. In pursuit of these objectives, we have implemented the following strategy:

***Upgrading and Enhancing Our Products and Services.*** We continually support, upgrade and enhance our systems to incorporate new technology and to meet the needs of our customers for increased operational efficiency and resilience. We continue to introduce innovative products and services, such as straight-through-processing solutions and Web-based technologies, that complement and improve our established products and services and also address the specific needs of our customers. Our enhancements and upgrades result, in part, from active dialogue with current and prospective customers and user groups, some of which are independent and others that are sponsored by us. As we seek to take advantage of new technologies and to improve our customers' operational efficiency and resilience, we are careful to preserve the functionality of our proven products and services. Our strong base of recurring revenue allows us to continually reinvest in our products and services. For example, in 2004, we spent 10% of revenue from Investment Support Systems and Higher Education and Public Sector Systems on product



development.

**Acquiring Complementary Businesses.** We seek acquisitions that broaden our existing product lines and service offerings and strengthen our leadership positions. We believe that our success in identifying appropriate acquisition candidates enables us to capitalize on consolidation trends, especially within the fragmented market for investment support systems. We have detailed, standardized procedures for evaluating and implementing acquisitions. Before committing to an acquisition, we devote significant resources to due diligence and to the development of a post-acquisition plan. First, we focus on the acquisition candidate's ability to generate profits by itself and then we attempt to identify and quantify potential cost savings. We also carefully review the acquisition candidate's potential impact on our financial results and balance sheet. Generally, we seek to make acquisitions that will be neutral or positive to our earnings within the first twelve months.

**Providing Straight-Through Processing.** Historically, processing investments and trades could not be completed in real-time. For example, trades could be executed and partially processed throughout the trading day, but the final processing, including confirmations, clearing and settlement, would be completed overnight or over the course of several days in what

was called a batch process, often with manual intervention. Our products and services eliminate the need for most batch processes and manual intervention, which facilitates real-time processing of investment and trading activity. We also focus on integrating our solutions with each other and with other vendors' systems. For example, we build interfaces that allow multiple systems to exchange data without manual intervention. As a result, we can provide straight-through-processing solutions, not only within a single customer's operations, but also across multiple firms. Our solutions help our customers to pursue revenue growth opportunities, comply with increasing regulatory burdens, lower costs, reduce errors and provide better service to their customers.

***Building Strong Customer Relationships.*** We believe that one of the keys to our success is our focus on developing close, well-managed, long-term relationships with our customers. Our operating units are focused on key customer types, which facilitates integration and cross-selling of our products. We not only focus on meeting our existing customers' needs, but also on attracting and retaining new customers and continually improving customer satisfaction. We believe our operational approach helps us attract and retain customers and increases customers' use of our products and services.

***Maintaining Our Financial Strength.*** We strive to generate a high level of recurring revenue and cash flow, employ disciplined financial policies, and have maintained a conservative capital structure. We believe this fiscal strategy has been a major factor contributing to our long-term financial strength and viability. This enables us to fund the growth of our business by continually developing and acquiring new products and provides us a competitive advantage in growing, serving and retaining our substantial customer base. To increase our financial flexibility, we issued \$500 million in unsecured senior notes in January 2004.

***Promoting an Entrepreneurial Culture.*** We believe that one of our strongest competitive strengths is our entrepreneurial culture. We intend to continue to foster this culture. About half of our executive officers and many other employees joined us as a result of acquisitions. Our operating unit management structure is central to expanding our business both through internal development and through identifying potential acquisitions. Our compensation structure actively encourages our employees to be entrepreneurial and to emphasize customer satisfaction.

## **Business Segment Overview**

### ***Investment Support Systems***

In Investment Support Systems, we primarily serve financial services institutions through a broad range of complementary software solutions that process their investment and trading transactions. These solutions are grouped into the following business areas: brokerage and trading systems; wealth management systems; treasury and risk management systems; investment management systems; and benefit, insurance and investor accounting systems. The principal purpose of most of these systems is to automate the many detailed processes associated with trading securities, managing portfolios and accounting for investment assets.

Our investment support systems are used by customers on both the buy-side and sell-side of the global financial services industry, as well as corporates, energy companies and governments. Buy-side customers include banks, investment managers, mutual funds, investment advisors, insurance companies, trustees, benefit plan administrators and others involved in buying, holding and managing investments. Sell-side customers include brokers, exchange members, depositaries, custodians, transfer agents and others involved in selling, brokering and trading financial instruments. Approximately five million trades per day are processed by our investment support systems at some point in the trade cycle.

We deliver many of our investment support systems as an application service provider (ASP). We provide investment support systems on an ASP basis primarily from our data centers located throughout North America and Europe. We also deliver some of our investment support

systems by licensing the software to customers for use on their own computers.

*Brokerage and Trading Systems*

Our brokerage and trading systems provide comprehensive processing of equities, fixed-income securities, and exchange-traded futures, options and other instruments. Used primarily by broker/dealers and other sell-side customers, these systems address all important facets of securities transaction processing, including order routing, trading support, execution and clearing, position keeping, regulatory and tax compliance and reporting, and investment accounting and recordkeeping. Some of these systems provide full front- to back-office support, while others are focused primarily on one or the other.

We own three registered brokers that facilitate enhanced straight-through processing by providing the following services using our brokerage and trading systems: (1) a clearing broker that provides order routing, execution and clearing for professional traders; (2) a full-service equities trading desk for institutional investors; and (3) a New York Stock Exchange member that uses a proprietary wireless system to execute trades for institutional investors.

We link our investment support systems and hosting data centers partly through the SunGard Transaction Network. Our customers link with other firms through this network to automate the investment process for trading and/or settling equities, bonds, money markets, commercial paper, certificates of deposit and mutual funds. We market these services to users of both our investment support systems and our business partners' systems.

#### *Wealth Management Systems*

Our wealth management systems include a range of software solutions used primarily by bank trust departments to manage and service the portfolios of high net worth individuals. We offer an integrated wealth management application suite that provides straight-through processing for global asset management firms and includes functionality for portfolio management and performance measurement, trade order management, regulatory and tax compliance, preparation of customer statements, and handling of other customer services. In addition, we provide turnkey, outsourced wealth management services to banks, registered investment advisors and other financial services organizations.

Several of our wealth management systems are used to automate the investment, operations and administrative areas unique to the bank trust business, including cash and portfolio management, payment of trust expenses, retiree benefits and beneficiary distributions, and preparation of tax returns for taxable trusts. Other wealth management systems are used to automate the functions associated with the worldwide custody and safekeeping of invested assets, such as trade settlement, investment income collection, tax reclamation, foreign exchange and reconciliation of depository and sub-custodian positions.

We also provide a range of solutions used by brokers, banks and insurance companies to support front-office wealth management activities. For example, we provide software solutions that are used by retail brokers in their advisory role to track customer contacts and manage customer portfolios. We also provide systems that enable our customers to provide online brokerage services to their own customers. Our other products are used by investment advisors to identify new prospects, create customer profiles, analyze customer needs, assess customer suitability, monitor compliance and cross-sell products. We also provide information management systems that are used by brokers and investment professionals to make informed investment decisions based on timely, dependable market data from exchanges and leading industry providers worldwide. In addition, we offer historical market and reference data and technology to perform trading analytics, quantitative modeling, and portfolio processing.

We also provide systems that automate the functions associated with worldwide securities lending activities and facilitate straight-through processing by providing a single, centralized order-routing network that links lenders and borrowers of securities.

#### *Treasury and Risk Management Systems*

We provide a range of software solutions that automate risk management and trading operations for capital markets globally. Generally, these products are used by traders and market makers of fixed-income securities, foreign exchange contracts and equities, and their related derivatives such as interest rate and credit derivatives, convertible bonds, foreign exchange options and equity options. These front- to back-office systems help customers price and analyze trades, manage trading and related risks across the institution, process and account for trading activities, and determine hedging strategies to manage risk. These systems also help customers monitor compliance with regulations and with their own trading policies, limits and internal controls.

We also provide a comprehensive solution for global banks to manage the credit risk associated with their worldwide trading activities. This solution allows users to consolidate credit exposures, optimize collateral management, and monitor compliance with capital requirements and

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regulations such as Basel II. We also provide to banks, across their retail and wholesale operations, asset and liability management software with comprehensive risk management and performance measurement functionality.

Our treasury systems are used by the treasury departments of corporate and government entities worldwide to manage their cash, debt and investment portfolios. We also provide professional services that focus on application implementation and integration of these treasury systems. In addition, we offer a Web-based service that provides a single point of access via the Internet to enable corporate treasurers to manage geographically dispersed treasury operations more efficiently.

We provide software systems that help utilities, power generating companies and energy traders, marketers and distribution companies to manage physical and financial trading activities. These systems provide trading support, market and credit risk management, trade processing, power scheduling and accounting functions. We also provide professional services including software development services to the energy industry.

We also provide exception management and reporting systems to financial services institutions. These systems automatically detect and repair errors that occur when transactions move between systems, which helps prevent exceptions in straight-through processing.

We also offer software solutions that provide intelligent message transformation, content-based routing, and data validation and enrichment, primarily for payments and post-trade messages. This makes it easier for financial services firms to integrate their financial messaging business processes.

#### *Investment Management Systems*

Our investment management systems include a range of software solutions used primarily by buy-side customers to maintain the books of record for all types of institutional investment portfolios, such as those managed by institutional asset managers, mutual funds, hedge funds, funds of funds, banks, prime brokers and third party administrators. We offer an integrated investment management application suite that provides straight-through processing for investment transactions, with comprehensive front- to back-office functionality including trade order management, execution support, portfolio management, compliance checking, accounting and reporting.

Our investment management systems are used to track investment activities including purchases and sales of securities, value portfolios using securities prices from various market sources, provide performance measurement and attribution analyses, perform complex accounting calculations and general ledger postings, and generate a variety of accounting, audit, tax and regulatory reports. In addition, some of these systems are used by investment advisors and other portfolio managers to analyze large investment portfolios using various models to assist with investment strategy and management decisions. We also provide software solutions that address the specialized accounting needs of domestic and offshore hedge funds and funds of funds and that address the specialized needs of private equity partnerships and venture capital funds.

#### *Benefit, Insurance and Investor Accounting Systems*

Our employee benefit plan systems automate the participant accounting activities associated with defined-contribution retirement plans, such as 401(k) plans. These systems maintain the books of record for each participant's share of the cash and securities in the plan, monitor compliance with government regulations and plan restrictions, process cash contributions and benefit payments, and produce tax reports for plan sponsors and participants. As a complement to these systems, we offer document generation systems for creating retirement plan documents and forms, and software for generating annual government filings and returns by employee benefit plans.

We also provide to the global insurance industry integrated marketing and policy administration solutions for both insurance agencies and home offices, supporting individual and group insurance, annuity, investment contract and pension policy administration. Insurance solutions include client management, financial analysis, retirement and estate planning, and policy illustrations.

Our investor accounting systems automate the transfer agent process for stock, bond and mutual fund issues. These systems maintain shareholder and bondholder positions, process new accounts, record purchases and sales, process cash deposits and disbursements, process dividend and interest distributions, generate proxy materials, tabulate votes, and produce tax reports and periodic shareholder and bondholder statements.

We provide specialized imaging and workflow management solutions for certain niches within the financial services industry.

*Higher Education and Public Sector Systems*

In Higher Education and Public Sector Systems, we primarily provide specialized enterprise resource planning ( ERP ) and administrative solutions to institutions of higher education, school districts and other nonprofit organizations, as well as local, state and federal governments. These solutions include accounting, personnel, fundraising, grant and project management, student administration and reporting for educational and nonprofit organizations and accounting, personnel, utility billing, land management, public safety and justice administration for governments. We also provide long-term outsourcing solutions to higher education institutions related to the management of technology, ERP implementations, and the integration of technology in the classroom and online. Since 1995, we have been acquiring companies and developing solutions for this segment. Three acquisitions in 2004 substantially increased our presence in this segment (see Note 3 of Notes to Consolidated Financial Statements).

Our Higher Education solutions help colleges and universities worldwide achieve their institutional goals through the strategic application of technology, business and academic solutions. We work collaboratively with institutions to create learning environments distinguished by self-service convenience, operational efficiency, and academic excellence through a broad spectrum of industry-leading solutions. These include administrative and academic solutions; business and curriculum planning solutions; portal, collaboration, and content management solutions; information access and business intelligence solutions; integration solutions and technology outsourcing solutions.

In Public Sector Systems, we serve a wide range of customers including K-12 school districts, nonprofit organizations, local governments and emergency services with a growing range of specialized enterprise resource planning and administrative solutions for functions such as accounting, human resources, payroll, utility billing, land management, public safety and justice, as well as student administration. In February 2005, we completed the acquisition of Vivista Holdings Limited, a provider of public safety, criminal justice and local government software and solutions in the U.K.

### *Availability Services*

Our previously announced plan to spin off our Availability Services business into a separate publicly traded company is scheduled for completion during the second quarter of 2005. The spin-off may be delayed or may not be completed at all due to a number of factors. See SPIN-OFF OF OUR AVAILABILITY SERVICES BUSINESS above.

In Availability Services, we help our customers maintain uninterrupted access to the information and computer systems they need to run their businesses by providing them with cost-effective resources to keep their information technology, or IT, reliable and secure. We pioneered commercial disaster recovery in the late 1970s and over the past 25 years have consistently expanded our business to incorporate new technologies and meet evolving customer demands. We believe that our dedicated focus on information availability, together with our experience, technology expertise, resource management capabilities, vendor neutrality and diverse service offerings, uniquely position us to meet customer demands in an environment where business functions are critically dependent on availability of information.

Because data and business applications can vary significantly in importance, there is a need for a broad range of information availability services. A customer's tolerance for downtime with respect to a particular application and the cost of the solution will dictate the type and complexity of availability services that the customer will select for that application. We offer a continuum of availability services from always ready standby services to always on production services. We provide these services on a subscription basis. We help customers select and blend multiple services to achieve an overall business solution tailored to meet their goals for both production and recovery. We also provide professional services to help our customers design, implement and maintain the ways they access critical information.

Our standby services help customers recover key information and systems in the event of an unplanned interruption, such as a major system failure, significant power or communication outage, security breach, labor stoppage, terrorist attack, fire, flood or natural disaster. These always ready services are best suited for the recovery of customer applications that can tolerate some level of interruption. By providing backup IT infrastructure, communications network and alternate workspace for personnel, we enable customers to restore access to information and processing within a short period of time after an interruption, usually from several hours to two days. We deliver these services using processors, servers, storage devices, networks and other resources and infrastructure that are subscribed to by multiple customers, which results in economies of scale for us and cost-effectiveness for our customers. These resources and infrastructure, when not needed by customers to recover from actual interruptions, are used around the clock by customers to test their plans for dealing with potential interruptions. Since our inception, we have a 100% success rate supporting customer recoveries from unplanned interruptions.

The primary standby service is called a hot site service in which we provide 24/7/365 access to fully operational backup computer systems, allowing customers to recover their mainframe, distributed systems and server technology. We support over 30 different operating platforms and



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specialized industry solutions. In addition to being accessed at one of our hot site facilities, many of our standby solutions can be provided in one of our mobile recovery units or delivered to a customer facility.

To enhance our hot site service, we offer a variety of advanced recovery services that blend always ready standby services and dedicated data storage resources, supported by a common robust infrastructure. These blended solutions are sometimes referred to as high availability, data vaulting or data mirroring solutions. The dedicated data storage resources, which are used exclusively by a single customer, allow the customer to continuously mirror its data at one of our sites. If there is an unplanned interruption at the customer's site, the backup data is immediately available for restoring operations using our hot site service. This allows customers to minimize data loss and reduce recovery times.

Our production services help our customers keep their day-to-day computer operations up and running all the time. These always on services are most needed when disruptions can have immediate and severe financial and reputational repercussions. They are engineered with redundant or failover capabilities to virtually eliminate the possibility of any disruption and to limit any downtime to at most a few seconds or minutes. Production services typically require more dedicated processors, servers, storage devices, networks and other resources, which are either obtained by the customer or provided by us for the customer's exclusive use. We can typically provide always on production services in a cost-effective manner by leveraging our comprehensive resources and infrastructure as well as our resource management skills and purchasing power, all of which provide us with certain economies of scale. Examples of these production services are managed hosting, managed IT services, network access management, security and optimization services, and e-mail archiving and retrieval.

As solutions move along the continuum of information availability services, from always ready standby services to blended advanced recovery services to always on production services, they become more complex and require more dedicated resources. 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 decrease in margin rate. Production services require significant dedicated resources and, therefore, generally produce even higher revenue at an appropriately lower margin rate. We focus on selling advanced recovery and production services as components of an overall business solution that leverages our standby services.

The acquisition of Inflow, Inc. in January 2005 significantly enhanced our infrastructure and service delivery capabilities, and added 14 data centers throughout the U.S. that geographically complement our existing U.S. data centers.

## Acquisitions

We seek to grow by developing existing businesses and buying new businesses that broaden our existing product lines and service offerings by adding complementary products and service offerings and by expanding our geographic reach. Our ongoing acquisition program has contributed significantly to our long-term growth and success. During 2004, we spent approximately \$774 million in cash (net of cash acquired) to acquire seven investment support systems businesses and three higher education and public sector systems businesses.

The following table lists the businesses we acquired since January 1, 2004:

<u>Acquired Company/Business</u>	<u>Date Acquired</u>	<u>Description</u>
FAME Information Services, Inc.	01/22/04	Historical market and reference data, and data management technology.
Systems & Computer Technology Corporation	02/12/04	Global technology solutions for higher education.
Collegis, Inc.	03/04/04	Outsourced IT solutions for higher education.
Real Time Financial Management Limited	03/05/04	Global bond and equity trading system.
Derivatech Risk Solutions, Inc.	03/17/04	Foreign exchange derivative trading software solutions.
SBPA Systems, Inc.	05/10/04	Health benefit administration systems.
Octigon, LLC	05/13/04	Software solutions for corporate communication and content management.
Open Software Solutions, Inc.	05/21/04	Public safety and justice software solutions.
Kiodex, Inc.	08/27/04	Software for corporate risk management and financial reporting.
Financial Technologies, Inc.	12/07/04	Investment and investor accounting software solutions primarily for private equity and venture capital funds.
Inflow, Inc.	01/04/05	Hosting and managed services for information availability.
Protegent, Inc.	01/26/05	Risk management solutions.
Vivista Holdings Limited	02/25/05	Public safety and justice software solutions in the U.K.
Ensemble Technology (Pty) Ltd	02/28/05	Professional services for the financial services industry in South Africa.
Integrity Treasury Solutions Limited	03/03/05	Treasury management systems.

## Product Development

We continually support, upgrade and enhance our systems to meet the needs of our customers for operational efficiency and resilience and to leverage advances in technology.

We fund most of our routine ongoing software support activities through a portion of the monthly fees paid by our ASP customers and the software support and related upgrade fees paid by our license customers. Our expenditures for software development during the years ended December 31, 2004, 2003 and 2002, including amounts that were capitalized, totaled approximately \$254 million, \$208 million and \$174 million, respectively. These amounts do not include routine software support costs that are included in cost of sales, nor do they include costs incurred in performing certain customer-funded development projects in the ordinary course of business.

## **Software License Backlog**

As in prior years, we ended 2004 with a software license backlog, which consisted of signed contracts for licensed software that at our election or the election of our customer was not shipped to the customer until 2005, with the result that the license fees will be recognized as revenue in 2005. This year's backlog was higher than usual, totaling \$19 million, with the largest portion coming from license-fee businesses acquired in 2004.

## **Marketing**

Most of our investment support systems are marketed throughout the United States and many are marketed worldwide, with the principal focus being on selling additional products and services to existing customers. Our information availability services and higher education and public sector systems are marketed primarily in North America and Europe, with a focus on both new accounts and existing accounts. Our revenue from sales outside the United States during the years ended December 31, 2004, 2003 and 2002 totaled approximately \$918 million, \$748 million and \$508 million, respectively.

## **Competition**

Since most of our computer services and software are specialized and technical in nature, most of the market niches in which we compete have a relatively small number of significant competitors. Some of our existing competitors and some potential competitors have substantially greater financial, technological and marketing resources than we have (see RISK FACTORS under ITEM 7).

**Investment Support Systems.** In our Investment Support Systems business, we compete with numerous other data processing and financial software vendors that may be broadly categorized into two groups. One group is comprised of specialized investment support systems companies, which are much smaller than us. The other group is comprised of large computer services companies whose principal businesses are not in the investment support systems area, some of which are also active acquirors. We also face competition from the internal processing and information technology departments of our customers and prospects. The key competitive factors in marketing investment support systems are the accuracy and timeliness of processed information provided to customers, features and adaptability of the software, level and quality of customer support, degree of responsiveness, level of software development expertise, total cost of ownership and return on investment. We believe that we compete effectively with respect to each of these factors and that our reputation and experience in this business are important competitive advantages.

**Higher Education and Public Sector Systems.** In our Higher Education and Public Sector Systems business, we compete with a variety of other vendors depending upon customer characteristics such as size, type, location, computing environment and functional requirements. For example, there may be different competitors for different sizes or types of educational institutions or government agencies, or in different states or geographic regions. Competitors in this business range from larger providers of generic enterprise resource planning systems to smaller providers of specialized applications and technologies. We also compete with outsourcers and systems integrators, as well as the internal processing and information technology departments of our customers and prospects. The key competitive factors in marketing higher education and public sector systems are the accuracy and timeliness of processed information provided to customers, features and adaptability of the software, level and quality of customer support, degree of responsiveness, level of software development expertise and overall net cost. We believe that we compete effectively as to each of these factors and that our leadership and reputation in this business are important competitive advantages.

**Availability Services.** In our Availability Services business, our greatest source of competition is in-house dedicated solutions, which are production or standby solutions that our customers or prospective customers develop and maintain internally instead of purchasing those solutions from a commercial vendor such as us. Although in-house solutions provide customers with exclusive access to resources and infrastructure, we believe that, for many customers, building and maintaining an in-house solution is significantly more costly and difficult than subscribing to comparable services from us. This is because of our economies of scale, experience, technology expertise, resource management skills and vendor neutrality.

Historically, our single largest commercial competitor in the Availability Services business has been IBM Corporation, which we believe is the only company other than ours that currently provides the full continuum of availability services. We also face competition from specialized vendors, including hardware manufacturers, data-replication software companies, outsourcers, managed-hosting companies, IT services companies and telecommunications companies. We sometimes face a competitive disadvantage with respect to pricing because some of our competitors have a motivation to bundle availability services with hardware or other products and services for what appears to be little or no additional cost to the customer in order to sell the hardware or other products. We believe, however, that our solutions are more flexible than these bundled

services and, because of our scale and experience, more comprehensive than the ones offered by our competitors. We believe that this places us in a better long-term position to satisfy the requirements of customers as their businesses and needs for availability services grow and evolve.

We believe that we compete effectively with respect to the key competitive factors in information availability, namely quality of infrastructure, scope and quality of services, including breadth of hardware platforms and network capacity, level and quality of customer support, level of technical expertise, and price. We also believe that our experience and reputation as an innovator in information availability, our proven track record, our financial stability and our ability to provide the entire continuum of availability services as a single-vendor solution are important competitive advantages.

## **Employees**

On December 31, 2004, we had approximately 13,000 full-time employees. We believe that our success depends partly on our continuing ability to retain and attract skilled technical, sales and management personnel. While skilled personnel are in high demand and competition exists for their talents, we believe that we have been able to retain and attract highly qualified personnel (see RISK FACTORS under ITEM 7). We believe that our employee relations are excellent.

## **Proprietary Protection**

We own registered marks for the SUNGARD name and own or have applied for trademark registrations for many of our services and software products. If the planned spin-off of our Availability Services business is completed, the spun-off company, SunGard Availability Inc., will change its name to SunGard Inc. and will retain the registered marks for the SUNGARD name, and our company, SunGard Data Systems Inc., will change its name to a new name and will own registered marks for the new name.

To protect our proprietary services and software, we rely upon a combination of copyright, patent, trademark and trade secret law, confidentiality restrictions in contracts with employees, customers and others, software security measures, and registered copyrights and patents. We also have established policies requiring our personnel and representatives to maintain the confidentiality of our proprietary property. We have a few registrations of our copyrights and a number of patents and patent applications pending. We will continue to apply for software and business method patents on a case-by-case basis and will continue to monitor ongoing developments in the evolving software and business method patent field (see RISK FACTORS under ITEM 7).

## **Available Information**

We make available, free of charge, at [www.sungard.com](http://www.sungard.com), our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

## **Item 2. Properties**

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We lease space, primarily for availability services facilities, data centers, sales offices, customer support offices and administrative offices, in many locations worldwide. We also own some of our computer and office facilities. Our principal facilities include our leased availability services facilities in Philadelphia, Pennsylvania (506,300 square feet), Carlstadt, New Jersey (432,400 square feet), and Hounslow, England (198,000 square feet) and include our ASP centers in Voorhees, New Jersey, Birmingham, Alabama, Waltham, Massachusetts, and Weehawken, New Jersey. We believe that our leased and owned facilities are adequate for our present operations.

### **Item 3. Legal Proceedings**

We are presently a party to certain lawsuits arising in the ordinary course of our business. We believe that none of our current legal proceedings will be material to our business, financial condition or results of operations.

### **Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 4.1 Certain Executive Officers of the Registrant**

Our executive officers are listed below.

<u>Name</u>	<u>Age</u>	<u>Principal Position With SunGard Data Systems Inc.</u>
James E. Ashton III	46	Group Chief Executive Officer
Donald W. Birdwell	52	Group Chief Executive Officer
Andrew P. Bronstein*	46	Vice President and Controller
Robert F. Clarke	60	Group Chief Executive Officer
Cristóbal Conde	44	President and Chief Executive Officer
T. Ray Davis	56	Group Chief Executive Officer
Harold C. Finders	49	Group Chief Executive Officer
Lawrence A. Gross	52	Senior Vice President Chief Administrative Officer and Chief Legal Officer
Till M. Guldemann	55	Vice Chairman
Paul C. Jeffers	43	Senior Vice President Human Resources
Ronald M. Lang	53	Chief Product Officer Financial Systems
James L. Mann*	70	Chairman
John E. McArdle, Jr.	47	Group Chief Executive Officer
Michael K. Muratore	58	Executive Vice President
Brian Robins	46	Senior Vice President Chief Marketing Officer
Michael J. Ruane*	51	Senior Vice President Finance and Chief Financial Officer
Victoria E. Silbey	41	Vice President Legal and General Counsel
James C. Simmons*	45	Group Chief Executive Officer
Bettina A. Slusar	41	Senior Vice President Global Account Management
Richard C. Tarbox	52	Senior Vice President Corporate Development

\* As previously announced, in connection with the planned spin-off of our Availability Services business, Mr. Bronstein would become our Chief Financial Officer; both Mr. Simmons and Mr. Ruane would join SunGard Availability (the spun-off company) with Mr. Simmons serving as its President and Chief Executive Officer and Mr. Ruane serving as its Chief Financial Officer; and Mr. Mann would remain on our board of directors in a non-executive capacity, while serving as Chairman of SunGard Availability. See SPIN-OFF OF OUR AVAILABILITY SERVICES BUSINESS under ITEM 1.

Mr. Ashton has been Group Chief Executive Officer, SunGard Trading, Treasury & Risk Management since January 2005. Mr. Ashton served as Group Chief Executive Officer, SunGard Trading and Risk Systems from 1999 to January 2005 and Group Chief Executive Officer, SunGard Treasury Systems from 2003 to 2005. From 1997 to 1999, he served as Senior Vice President and General Manager of a wealth management systems business that we acquired in 1997.

Mr. Birdwell has been Group Chief Executive Officer, SunGard Wealth Management & Brokerage since January 2005. Mr. Birdwell served as Group Chief Executive Officer, SunGard Asset Management Systems from 1999 to 2005 and Group Chief Executive Officer, SunGard Securities Processing Systems from 2002 to January 2005, and has been responsible for our SunGard Online Investment Systems group since 2003. From 1989 to 1999, Mr. Birdwell held various senior management positions with us, including President of one of our wealth management systems business units from 1993 to 1999. Mr. Birdwell was a senior executive of a wealth management systems business that we acquired in 1989.

Mr. Bronstein has been Vice President and Controller since 1994 and was Corporate Controller from 1992 to 1994. From 1985 to 1992, he was a manager with Coopers & Lybrand L.L.P., Philadelphia, where he served as senior manager on our account and as director of the firm's Philadelphia high technology group. Mr. Bronstein is a director and officer of most of our domestic subsidiaries.



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Mr. Clarke has been Group Chief Executive Officer, SunGard Higher Education and Public Sector Systems since 1998. From 1988 to 1998, he served as President of one of our wealth management systems business units.

Mr. Conde has been President since 2000 and Chief Executive Officer since 2002. Mr. Conde served as Chief Operating Officer from 1999 to 2002 and Executive Vice President from 1998 to 1999. Before then, Mr. Conde was Chief Executive Officer of SunGard Trading Systems Group from 1991 to 1998. Mr. Conde was cofounder of a trading and risk systems business that we acquired in 1987.

Mr. Davis has been Group Chief Executive Officer, SunGard Benefit Administration & Insurance since January 2005. Mr. Davis served as Group Chief Executive Officer, SunGard Employee Benefit Systems from 1999 to January 2005 and Group Chief Executive Officer, SunGard Investor Accounting Systems from 2002 to January 2005. From 1989 to 1999, he held various senior management positions with us, including President of one of our benefit, insurance and investor accounting systems business units from 1991 to 1999. Mr. Davis was a senior executive of an employee benefit systems business that we acquired in 1989.

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Mr. Finders has been Group Chief Executive Officer, SunGard Europe since January 2005. From 2001 to January 2005, Mr. Finders headed the SunGard Investment Management Systems businesses based in Europe. From 1996 to 2001, he held various senior management positions with us overseeing a number of our European investment support systems businesses. Mr. Finders headed a Geneva-based wealth management systems business that we acquired in 1996.

Mr. Gross has been Senior Vice President Chief Administrative Officer and Chief Legal Officer since January 2005. Mr. Gross was Senior Vice President Legal from 2001 to January 2005 and served as our General Counsel from 1986 to January 2005. He was our Secretary from 1987 to March 2002 and a Vice President from 1986 to 2001. From 1979 to 1986, he was a lawyer with Blank Rome LLP, Philadelphia, and in that capacity represented us beginning in 1983. Mr. Gross is a director and officer of most of our domestic subsidiaries and some of our foreign subsidiaries.

Mr. Guldemann has been Vice Chairman since 2002. He was our Senior Vice President, Strategy and a member of our board of directors from 1999 to March 2002. Mr. Guldemann was Vice Chairman from 1997 to 1999 and Senior Vice President from 1995 to 1997 of a trading and risk systems business that we acquired in 1998. From 1974 to 1995, Mr. Guldemann held various senior executive positions with J.P. Morgan & Co.

Mr. Jeffers has been Senior Vice President Human Resources since January 2005 and was Vice President Human Resources from 2001 to January 2005. From 2000 to 2001, Mr. Jeffers was National Director of Performance Management and Education for Grant Thornton, LLP, and from 1999 to 2000, he was Vice President Human Resources of First USA Bank. From 1995 to 1999, Mr. Jeffers was Area Director, Human Resources for the Management Consulting Practice of Ernst & Young LLP.

Mr. Lang has been Chief Product Officer Financial Systems since January 2005. From 2000 to January 2005, he was Group Chief Executive Officer, SunGard Trading Systems and was responsible for our SunGard Brokerage Systems and SunGard Financial Networks groups from 2003 to January 2005. Mr. Lang was Vice President of Marketing from 1997 to 1998 and President from 1998 to 2000 of a trading and risk systems business that we acquired in 1998.

Mr. Mann has been Chairman of the Board since 1987. Mr. Mann served as Chief Executive Officer from 1986 to 2002, President from 1986 to 2000, and Chief Operating Officer from 1983 to 1985.

Mr. McArdle has been Group Chief Executive Officer, SunGard Institutional Asset Management and Securities Servicing since January 2005. Mr. McArdle served as Chief Executive Officer of SunGard Investment Management Systems from 1999 to January 2005. From 1986 to 1999, he held various senior management positions with us, including President of one of our investment management systems business units since 1998.

Mr. Muratore has been Executive Vice President since March 2002. He was Senior Vice President from 1998 to March 2002, Chief Executive Officer of the SunGard Financial Systems Group from 1995 to 1998 and Chief Executive Officer of the SunGard Computer Services Group from 1990 to 1995. From 1985 to 1990, Mr. Muratore held various senior executive positions with us. Mr. Muratore is a director and/or officer of many of our domestic subsidiaries.

Mr. Robins has been Senior Vice President Chief Marketing Officer since January 2005. From 2003 to January 2005, he was Senior Vice President Corporate Marketing and was Vice President Corporate Marketing from 2000 to February 2003. From 1995 to 2000, Mr. Robins held various marketing positions, including Vice President Marketing, with a trading and risk systems business that we acquired in 1998.

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Mr. Ruane has been Senior Vice President Finance since 2001 and our Chief Financial Officer since 1994. He was Vice President Finance from 1994 to 2001 and Treasurer from 1994 to 2005. From 1992 until 1994, Mr. Ruane was Chief Financial Officer and Vice President Finance of the SunGard Trading Systems Group. Mr. Ruane was our Vice President Controller from 1990 to 1992, and our Corporate Controller from 1985 to 1990. Mr. Ruane is a director and officer of most of our domestic and foreign subsidiaries. Mr. Ruane is also a director of Arbinet-thexchange, Inc.

Ms. Silbey has been Vice President Legal and General Counsel since January 2005. From December 1997 to January 2005, Ms. Silbey held various legal positions with us, including Vice President Legal and Assistant General Counsel from February 2004 to January 2005. From 1991 to 1997, she was a lawyer with Morgan, Lewis & Bockius LLP, Philadelphia.

Mr. Simmons has been Group Chief Executive Officer and President, SunGard Availability Services since 1999. From 1993 to 1999, he held various senior management positions with us, including Senior Vice President Sales of our principal availability services business unit from 1995 to 1997 and President of one of our benefit, insurance and investor accounting systems business units from 1998 to 1999. Mr. Simmons was a senior executive of an availability services business that we acquired in 1993.

Ms. Slusar has been Senior Vice President Global Account Management since 2003 and was Vice President Global Account Management from 2001 to 2003. Ms. Slusar was President from 1999 to 2001 and Senior Vice President, North American Sales and Operations from 1997 to 1998 of one of our brokerage and trading systems business units.

Mr. Tarbox has been Senior Vice President Corporate Development since 2001 and was Vice President Corporate Development from 1987 to 2001. From 1983 to 1987, Mr. Tarbox was a senior manager with Coopers & Lybrand L.L.P., providing acquisition, litigation support and other financial consulting.

**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is listed on the New York Stock Exchange under the symbol SDS. At March 3, 2005, we had approximately 9,200 stockholders of record. No dividends have ever been paid on our common stock. Our policy is to retain earnings for use in our business.

The accompanying table indicates high and low sales prices per share of our common stock, as reported on the New York Stock Exchange.

**Calendar Year 2004**

First Quarter	\$ 31.65	\$ 25.84
Second Quarter	28.90	24.82
Third Quarter	25.90	22.40
Fourth Quarter	28.45	23.81

**Calendar Year 2003**

First Quarter	\$ 25.09	\$ 17.50
Second Quarter	26.76	20.00
Third Quarter	29.60	25.00
Fourth Quarter	29.16	25.99

The closing price of our common stock on March 3, 2005, as reported on the New York Stock Exchange, was \$26.08 per share.

The following table sets forth information regarding purchases made by us of shares of our common stock during the three months ended December 31, 2004:

Period	Issuer Purchases of Equity Securities			Maximum Number of Shares That May
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased	

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			as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
October 1 31, 2004	165,000	\$ 26.41	165,000	2,335,000
November 1 30, 2004	1,155,000	\$ 26.47	1,155,000	1,180,000
December 1 31, 2004	110,000	\$ 26.95	110,000	1,070,000
<b>Total</b>	<b>1,430,000</b>	<b>\$ 26.50</b>	<b>1,430,000</b>	

- (1) On February 26, 2004, we announced that our Board of Directors authorized us to repurchase up to 5 million shares of our common stock ( 2004 Repurchase Program ). The terms of the 2004 Repurchase Program permitted us to repurchase shares of our common stock from time to time in the open market at the discretion of management. Shares purchased under the 2004 Repurchase Program will be used for our employee stock option and purchase plans. As of December 31, 2004, 3.93 million shares were repurchased under the 2004 Repurchase Program. There were no repurchases in 2005 under the 2004 Repurchase Program, which expired on February 24, 2005.

**Item 6. Selected Financial Data**

<i>(in thousands, except per-share amounts)</i>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Income Statement Data<sup>(1) (2) (3) (4)</sup></b>					
Revenue	\$ 1,703,096	\$ 1,981,837	\$ 2,593,237	\$ 2,955,252	\$ 3,555,871
Income from operations	335,262	399,210	547,233	623,609	703,384
Net income	212,972	246,055	325,641	370,310	453,641
Basic net income per share	0.81	0.89	1.15	1.30	1.57
Diluted net income per share	0.78	0.86	1.12	1.27	1.54
<b>Balance Sheet Data<sup>(1)</sup></b>					
Total assets	\$ 1,845,185	\$ 2,898,158	\$ 3,281,596	\$ 4,000,107	\$ 5,194,641
Total short-term and long-term debt	13,847	458,631	206,092	199,797	554,378
Stockholders' equity	1,442,476	1,793,856	2,222,399	2,765,868	3,251,636

- (1) Includes the effect of business acquisitions and dispositions from the date of each event. There were ten acquisitions in 2000, seven acquisitions in 2001, nine acquisitions in 2002, nine acquisitions in 2003 and ten acquisitions in 2004. Brut LLC (Brut) and two other businesses were sold in 2004. See Note 3 of Notes to Consolidated Financial Statements.
- (2) All per-share amounts before June 2001 are adjusted for the June 2001 two-for-one stock split.
- (3) Includes amortization of goodwill, net of tax, of \$13,877 and \$17,853 in 2000 and 2001, respectively (\$0.05 and \$0.06 per diluted share, respectively).
- (4) Data for the year ended December 31, **2000** includes charges of \$13,177 (\$8,547 after tax; \$0.03 per diluted share) for purchased in-process research and development and merger costs.

Data for the year ended December 31, **2001** includes charges of \$17,670 (\$12,736 after tax; \$0.04 per diluted share) for the write-off of an investment, for facility shut-down and severance costs related to an acquisition, and for merger costs, offset in part by a break-up fee and a realized gain on short-term investments sold to fund an acquisition.

Data for the year ended December 31, **2002** includes charges of \$11,793 (\$8,570 after tax; \$0.03 per diluted share) for facility shut-down and severance costs related to two acquisitions, along with our share of merger costs associated with our equity interests in two companies before we acquired the remaining equity of each, net of other income of \$2,993 related to a gain on foreign currency purchased to fund an acquisition.

Data for the year ended December 31, **2003** includes merger costs and related items of \$333 (\$811 after tax; less than \$0.01 per diluted share).

Data for the year ended December 31, **2004** includes a gain of \$78,066 (\$46,063 after tax; \$0.16 per diluted share) from the sale of Brut, offset by \$6,168 (\$5,965 after tax; \$0.02 per diluted share) of costs associated with the planned spin-off of our Availability Services business and net facility shut-down and severance costs related to previous acquisitions.

See Notes 2 and 3 of Notes to Consolidated Financial Statements.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Risk Factors**

Certain of the matters we discuss in this Report on Form 10-K may constitute forward-looking statements. You can identify forward-looking statements because they contain words such as believes, expects, may, will, should, seeks, approximately, intends, plans, anticipates or 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. 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, including the lingering effects of the economic slowdown on information technology spending levels, trading volumes and services revenue;

the overall 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 or catastrophic events;

the effect of disruptions to our ASP Systems;

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, as and when applicable, are discussed in our filings with the Securities and Exchange Commission, including this Report on Form 10-K. We assume no obligation to update any written or oral forward-looking statements made by us or on our behalf as a result of new information, future events or other factors.

***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. As a result of the recent economic slowdown and the recent trend toward more use of internal solutions for some portion of information availability services, our internal growth steadily decreased, and nearly all of our revenue growth during the past three years was from acquisitions.

*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 a Principal 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.*

There can be no assurance that our acquisition program will continue to be successful or that each acquisition will meet one of our important guidelines of being neutral or positive to our earnings within the first twelve months and thereafter. 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; and

we may have to write off goodwill or other intangible assets.

*If We Are Unable to Identify Suitable Acquisition Candidates and Successfully Complete Acquisitions, Our Growth Will Be Slowed 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 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;

we may face competition for acquisitions from other potential acquirers or from the possibility of the acquisition target pursuing an initial public offering of its stock;

we may have to borrow money from a bank or sell equity or debt securities to the public to finance future acquisitions as we did with the recent acquisition of Systems & Computer Technology Corporation; 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. Three of our availability services facilities are particularly important, and a major disruption at one or more of those facilities could impair our ability to provide services to our availability services customers. If any of these 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 ASP Systems May Be Subject To Disruptions that Could Adversely Affect Our Reputation and Our Business.*

Our ASP 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. If

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our ASP 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 and be difficult to predict due to the timing and magnitude of software sales. We offer some of our investment support 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 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. 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;

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 investment support systems 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 availability customers to develop their own internal solutions, may render some of our 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 availability 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 Dedicated Resources Likely Will Lower Our Overall Margin Rate Over Time.*

In the information availability services industry, 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

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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 decrease in margin rate. Production services require significant dedicated resources and, therefore, generally produce even higher revenue at an appropriately lower margin rate. Therefore, this trend likely will lower our overall margin rate over time.

### *Our Brokerage Operations Are Highly Regulated and Are Riskier Than Our Other Businesses.*

Organizations like the Securities and Exchange Commission (SEC), New York Stock Exchange (NYSE) and National Association of Securities Dealers (NASD) can, among other things, fine, censure, issue cease-and-desist orders and suspend or expel a broker/dealer or any of its officers or employees for failures to comply with the many laws and regulations that govern brokerage operations. Our ability to comply with these laws and regulations is largely dependent on our establishment, maintenance and enforcement of an effective brokerage compliance program. Our failure to establish, maintain and enforce proper brokerage compliance procedures, even if unintentional, could subject us to significant losses, lead to disciplinary or other actions, and tarnish our reputation. Regulations affecting the brokerage industry, in particular with respect to active traders, may change, which could adversely affect our financial results.

We are exposed to certain risks due to the trading activities of our customers and professional traders of our brokerage operations. If customers or professional traders fail to pay for securities they buy, or fail to cover their short sales, or fail to repay margin loans we make to them, then we may suffer losses, and these losses may be disproportionate to the revenue and profit contributions of this business. In our other businesses, we generally can disclaim liability for trading losses that may be caused by our software, but in our brokerage operations, we cannot limit our liability for trading losses even when we are not at fault.

*If We Are Unable to Retain or Attract Customers, Our Business and Financial Results Will Be Adversely Affected.*

If we are unable to keep existing customers satisfied, sell additional products and services to existing customers or attract new customers, then our business and financial results may suffer. A variety of factors could affect our ability to successfully retain and attract customers, including the level of demand for our products and services, the level of customer spending for information technology, the level of competition from internal customer solutions and from other vendors, the quality of our customer service, our ability to update our products and develop new products and services needed by customers, and our ability to integrate and manage acquired businesses. Our services revenue, which has been largely recurring in nature, comes from the sale of our products and services under fixed-term contracts. We do not have a unilateral right to extend these contracts when they expire. If customers cancel or refuse to renew their contracts, or if customers reduce the usage levels or asset values under their contracts, there could be a material adverse effect on our business and financial results.

*If We Fail to Retain Key Employees, Our Business May Be Harmed.*

Our success depends on the skill, experience and dedication of our employees. If we are unable to retain and attract sufficiently experienced and capable personnel, especially in product development, sales and management, our business and financial results may suffer. For example, if we are unable to retain and attract a sufficient number of skilled technical personnel, our ability to develop high quality products and provide high quality customer service may be impaired. Experienced and capable personnel in the technology industry remain in high demand, and there is continual competition for their talents. When talented employees leave, we may have difficulty replacing them, and our business may suffer. There can be no assurance that we will be able to successfully retain and attract the personnel that we need.

*We are Subject to the Risks of Doing Business Internationally.*

During 2004, approximately 26% of our revenue was generated outside the United States. Approximately 77% of this revenue was from customers located in the United Kingdom and Continental Europe. Because we sell our services outside the United States, our business is subject to risks associated with doing business internationally. Accordingly, our business and financial results could be adversely affected due to a variety of factors, including:

changes in a specific country's or region's political climate or economic condition;

unexpected changes in foreign laws and regulatory requirements;

difficulty of effective enforcement of contractual provisions in local jurisdictions;

trade-protection measures and import or export licensing requirements;

potentially adverse tax consequences; and

significant adverse changes in foreign currency exchange rates.

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*If We Are Unable to Protect Our Proprietary Technologies and Defend Infringement Claims, We Could Lose Our Competitive Advantage and Our Business Could Be Adversely Affected.*

Our success depends in part on our ability to protect our proprietary products and services and to defend against infringement claims. If we are unable to do so, our business and financial results may suffer. To protect our proprietary technology, we rely upon a combination of copyright, patent, trademark and trade secret law, confidentiality restrictions in contracts with employees, customers and others, software security measures, and registered copyrights and patents. Despite our efforts to protect the proprietary technology, unauthorized persons may be able to copy, reverse engineer or otherwise use some of our technology. It also is possible that others will develop and market similar or better technology to compete with us. Furthermore, existing patent and copyright laws may afford only limited protection, and the laws of certain countries do not protect proprietary technology as well as United States law. For these reasons, we may have difficulty protecting our proprietary technology against unauthorized copying or use. If any of these events happens, there could be a material adverse effect on the value of our proprietary technology and on our business and financial results. In addition, litigation may be necessary to protect our proprietary technology. This type of litigation is often costly and time-consuming, with no assurance of success.

The legal framework for software and business method patents is rapidly evolving, and it is possible that others may patent technology similar to ours and may assert infringement claims against us. These claims may be difficult and costly to defend and may lead to unfavorable judgments or settlements, which could have a material adverse effect on our business and financial results. For these reasons, we may find it difficult or costly to add or retain important features in our products and services.

*Risks Related to the Planned Spin-Off of Our Availability Services Business*

*The Planned Spin-Off of Our Availability Services Business May Not Occur or May Not Meet its Objectives.*

Our previously announced spin off of our Availability Services business is scheduled for completion during the second quarter of 2005. The planned spin-off may be delayed or may not be completed at all due to a number of factors, including the board of directors' discretion to delay or cancel the spin-off or the failure to satisfy certain conditions including obtaining a favorable ruling from the Internal Revenue Service or an acceptable tax opinion. Furthermore, if the spin-off is completed, we cannot assure you that we will be successful in meeting the objectives of the spin-off. For example, although we anticipate that separating our Availability Services business from our Software & Processing business will facilitate better growth opportunities for each, we cannot assure you that either company will have greater success in identifying and pursuing its own growth opportunities.

*Our Ability to Engage in Acquisitions and Other Strategic Transactions Will Be Subject to Limitations Because We Would Agree to Certain Restrictions to Comply with United States Federal Income Tax Requirements for a Tax-Free Spin-Off.*

In order to preserve favorable tax treatment for the spin-off under United States tax law, we and SunGard Availability would agree to certain restrictions in connection with the spin-off. For a period of two years after the spin-off is completed, neither company would be able to engage in, or enter into an agreement to engage in, a transaction that would result in a 50% or greater change by vote or by value in stock ownership, unless it is established that the transaction is not pursuant to a plan or series of transactions related to the spin-off. Other tax-related restrictions would include limitations on sales or redemptions of our common stock for cash or other property following the spin-off, except in connection with certain stock-for-stock acquisitions and other permitted transactions. If any of these restrictions are not followed, the spin-off could be taxable both to you and to us, but not to SunGard Availability, although SunGard Availability would agree to share the tax liability with us under certain circumstances.

*If the Spin-Off Does Not Qualify as a Tax-Free Distribution, Then We May Incur a Very Significant Tax Liability That Could Have a Material Adverse Effect on Our Financial Condition, and Our Stockholders May Incur Tax on Their Receipt of the Stock of SunGard Availability.*

Even if we obtain a favorable ruling from the IRS and proceed with the spin-off, the IRS could later determine the spin-off to be taxable. In addition, certain future events that may or may not be within our control or the control of SunGard Availability, including certain extraordinary purchases of our common stock or SunGard Availability's common stock, could cause the spin-off not to qualify as tax-free. If the spin-off were to be taxable at the company level, then we would recognize taxable gain equal to the excess of the fair market value of the Availability Services business on the date of the distribution over our tax basis in that business. We believe that the resulting tax liability would be very significant and would have a material adverse effect on our financial condition. We may have a right under certain circumstances to recover part or all of the tax liability from SunGard Availability, but there can be no assurance that SunGard Availability would be able to satisfy this obligation. If the spin-off were to be taxable at the stockholder level, then our stockholders could be taxed on the full value of the SunGard Availability shares they receive as a dividend.

*We May Be Required to Satisfy Certain Indemnification Obligations to SunGard Availability or May Not Be Able to Collect on Indemnification Rights From SunGard Availability.*

Under the terms of the separation and distribution agreement for the planned spin-off, we and SunGard Availability each would agree to indemnify each other after completion of the spin-off with respect to the indebtedness, liabilities and obligations that would be retained by our



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respective companies. These indemnification obligations could be significant. The ability to satisfy these indemnities if called upon to do so would depend upon the future financial strength of each of our companies. We cannot determine whether we would have to indemnify SunGard Availability for any substantial obligations after the distribution. We also cannot assure you that, if SunGard Availability has to indemnify us for any substantial obligations, SunGard Availability would have the ability to do so.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

We are a global leader in integrated software and processing solutions, primarily for financial services, and are also the pioneer and leading provider of information availability services. We are an efficient operator of resilient information technology solutions. Our efficiency comes from the economies of scale in serving multiple customers on shared platforms. We support more than 20,000 customers in over 50 countries. We currently operate our business in three segments: Investment Support Systems (ISS), Higher Education and Public Sector Systems (HE/PS) and Availability Services (AS).

Our previously announced spin off of our Availability Services business is scheduled for completion during the second quarter of 2005. The planned spin-off may be delayed or may not be completed at all due to a number of factors. See SPIN-OFF OF OUR AVAILABILITY SERVICES BUSINESS under ITEM 1. After the spin-off, we expect to report the Availability Services business as a discontinued operation in accordance with Statement of Financial Accounting Standard Number 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

In ISS, we primarily serve financial services institutions through a broad range of complementary software solutions that process their investment and trading transactions. These solutions are grouped into the following business areas: brokerage and trading systems; wealth management systems; treasury and risk management systems; investment management systems; and benefit, insurance and investor accounting systems. The principal purpose of most of these systems is to automate the many detailed processes associated with trading securities, managing portfolios and accounting for investment assets. We deliver many of our systems as an application service provider.

In HE/PS, we primarily provide specialized enterprise resource planning and administrative solutions for higher education, school districts, governments and nonprofits. We significantly expanded this segment through three acquisitions in 2004, including the February 2004 acquisition of Systems & Computer Technology Corporation (SCT), a leading global provider of technology solutions for higher education. See Note 3 of Notes to Consolidated Financial Statements.

In AS, we help our customers maintain uninterrupted access to the information and computer systems they need to run their businesses by providing them with cost-effective resources to keep their information technology, or IT, reliable and secure. We offer a continuum of availability services from always ready standby solutions to always on production services. We also provide professional services to help our customers design, implement and maintain the ways they access critical information.

The following discussion includes historical and certain forward-looking information that should be read together with the accompanying Consolidated Financial Statements and related footnotes and the discussion above of certain risks and uncertainties that could cause future operating results to differ materially from historical results or the expected results indicated by forward-looking statements.

### Use of Estimates and Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make many estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. Those estimates and judgments are based on historical experience, future expectations and other factors and assumptions we believe to be reasonable under the

circumstances. We review our estimates and judgments on an ongoing basis and revise them when necessary. Actual results may differ from the original or revised estimates. A summary of our significant accounting policies is contained in Note 1 of Notes to Consolidated Financial Statements. A description of the most critical policies follows. Our management has discussed the critical accounting policies described below with our audit committee.

*Intangible Assets and Purchase Accounting*

We seek to grow through both internal development and the acquisition of businesses that broaden our existing product lines and service offerings and strengthen our leadership position. During the three years ended December 31, 2004, we spent approximately \$1.4 billion, net of cash acquired, to purchase 28 businesses. Purchase accounting requires that all assets and liabilities be recorded at fair value on the acquisition date, including identifiable intangible assets separate from goodwill. Identifiable intangible assets generally include software, customer base which includes customer contracts and relationships, and noncompetition agreements. Goodwill represents the excess of cost over the fair value of net assets acquired. For significant acquisitions, we obtain independent appraisals and valuations of the intangible (and certain tangible) assets acquired and certain assumed obligations.

The estimated fair values and useful lives of identified intangible assets are based on many factors, including estimates and assumptions of future operating performance and cash flows of the acquired business, estimates of cost avoidance, the nature of the business acquired, the specific characteristics of the identified intangible assets and our historical

experience and that of the acquired business. The estimates and assumptions used to determine the fair values and useful lives of identified intangible assets could change due to numerous factors, including product demand, market conditions, regulations affecting the business model of our brokerage operations, technological developments, economic conditions and competition. The carrying values and useful lives for amortization of identified intangible assets are reviewed on an ongoing basis, and any resulting changes in estimates could have a material adverse effect on our financial results.

When circumstances change or at least annually, we compare the carrying value of our reporting units to their estimated fair value. If the carrying value is greater than the respective estimated fair value, we then determine if the goodwill is impaired, and whether some or all of the goodwill should be written off as a charge to operations, which could have a material adverse effect on our financial results. The estimate of fair value requires various assumptions including the use of projections of future cash flows and discount rates that reflect the risks associated with achieving the future cash flows. Changes in the underlying business could affect these estimates, which in turn could affect the fair value of the reporting unit.

In connection with certain acquisitions, we have accrued the estimated costs of closing certain facilities. Costs for closing leased facilities are estimated based on the condition and remaining lease term of each facility, the expected closure date, and an assessment of relevant market conditions, including an estimate of any sub-lease rental income we can reasonably expect to obtain at the time of the acquisition. Costs for closing owned facilities are based on the difference between the estimated net proceeds from a sale of the facility and its carrying value. These estimates are based on an assessment of the condition of the facility, its location and relevant market conditions. The estimated cost of closing our existing facilities is included in merger costs, and the estimated cost of closing acquired facilities is included in goodwill. Merger costs or goodwill could change due to the finalization of plans for closing facilities and completion of valuations, as well as the settlement of lease obligations or sale of owned facilities. A change in market conditions after the acquisition date could change the estimated costs for closing facilities and would result in a charge or credit to merger costs, which could have a material effect on our financial results.

### ***Revenue Recognition***

We recognize revenue in accordance with Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. SAB 104 requires that the following criteria be met in determining whether revenue has been earned: persuasive evidence of an arrangement exists; delivery has occurred or services have been provided; the price is fixed or determinable; and collectibility is reasonably assured.

We generate services revenue from availability services, processing services, software maintenance and rentals, professional services, broker/dealer fees and hardware rentals. All services revenue is recorded as the services are provided based on the fair value of each element. Fair value is determined based on the sales price of each element when sold separately. Most AS services revenue consists of fixed monthly fees based upon the specific computer configuration or business process for which the service is being provided, and the related costs are incurred ratably over the contract period. When recovering from an interruption, customers generally are contractually obligated to pay additional fees, which typically cover our incremental costs of supporting customers during recoveries. ISS services revenue includes monthly fees, which may include a fixed minimum fee and/or variable fees based on a measure of volume or activity, such as the number of users, accounts, trades or transactions or the number of hours of service.

For fixed-fee professional services contracts, services revenue is recorded based upon the estimated percentage of completion, measured by the actual number of hours incurred divided by the total estimated number of hours for the project. When fixed-fee contracts include both professional services and software and require a significant amount of program modification or customization, installation, systems integration or related services, the professional services and license revenue is recorded based upon the estimated percentage of completion, measured in the manner described above. Changes in the estimated costs or hours to complete the contract are reflected in the period during which the change becomes known. Losses, if any, are recognized immediately.

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License fees result from contracts that permit the customer to use our software products at its site. Generally, these contracts are multiple-element arrangements since they usually provide for professional services and ongoing software maintenance. In these instances, license fees are recognized upon the signing of the contract and delivery of the software if the license fee is fixed, collection is probable, and there is sufficient evidence of the fair value of each undelivered element. Revenue is recorded over the contract period when customer payments are extended beyond normal billing terms, or when there is significant acceptance, technology or service risk. Revenue also is recorded over the contract period in those instances where the software is bundled together with computer equipment or other post-delivery services, and there is not sufficient evidence of the fair value of each element.

We believe that our revenue recognition practices comply with the complex and evolving rules governing revenue recognition. Future interpretations of existing accounting standards, new standards or changes in our business practices could result in changes in our revenue recognition accounting policies that could have a material effect on our financial results.

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## Results of Operations

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

	Year ended December 31,			Percent of Revenue			Percent	
	(in millions)			Year ended December 31,			Increase (Decrease)	
	2004	2003	2002	2004	2003	2002	2004 vs. 2003	2003 vs. 2002
<b>Revenue</b>								
Investment support systems	\$ 1,839.3	\$ 1,605.8	\$ 1,408.1	52%	54%	54%	15%	14%
Higher education and public sector systems	524.9	178.9	132.6	15%	6%	5%	193%	35%
Software & processing solutions	2,364.2	1,784.7	1,540.7	66%	60%	59%	32%	16%
Availability services	1,191.7	1,170.6	1,052.5	34%	40%	41%	2%	11%
	<u>\$ 3,555.9</u>	<u>\$ 2,955.3</u>	<u>\$ 2,593.2</u>	100%	100%	100%	20%	14%
<b>Costs and Expenses</b>								
Cost of sales and direct operating	\$ 1,607.6	\$ 1,291.9	\$ 1,101.8	45%	44%	42%	24%	17%
Sales, marketing and administration	665.3	536.1	504.7	19%	18%	19%	24%	6%
Product development	236.4	194.8	158.9	7%	7%	6%	21%	23%
Depreciation and amortization	218.1	222.7	203.0	6%	8%	8%	(2)%	10%
Amortization of acquisition-related intangible assets	118.9	88.7	65.1	3%	3%	3%	34%	36%
Merger and spin-off costs	6.2	(2.5)	12.5					
	<u>\$ 2,852.5</u>	<u>\$ 2,331.7</u>	<u>\$ 2,046.0</u>	80%	79%	79%	22%	14%
<b>Operating Income</b>								
Investment support systems <sup>(1)</sup>	\$ 310.2	\$ 301.8	\$ 320.8	17%	19%	23%	3%	(6)%
Higher education and public sector systems <sup>(1)</sup>	81.6	22.1	19.1	16%	12%	14%	269%	16%
Software & processing solutions <sup>(1)</sup>	391.8	323.9	339.9	17%	18%	22%	21%	(5)%
Availability services <sup>(1)</sup>	373.2	339.7	257.8	31%	29%	24%	10%	32%
Corporate administration	(55.4)	(42.5)	(38.0)	(2)%	(1)%	(1)%	30%	12%
Merger and spin-off costs	(6.2)	2.5	(12.5)					
	<u>\$ 703.4</u>	<u>\$ 623.6</u>	<u>\$ 547.2</u>	20%	21%	21%	13%	14%

(1) Percent of revenue is calculated as a percent of revenue from ISS, 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, the relative percentage that those amounts represent to total revenue and the percentage change in those amounts from period to period. All percentages are calculated using actual amounts rounded to the nearest one-hundred thousand and are rounded to the nearest whole percentage.

	Year ended December 31, (in millions)			Percent of Revenue Year ended December 31,			Percent Increase (Decrease)	
	2004	2003	2002	2004	2003	2002	2004 vs. 2003	2003 vs. 2002
<b>Investment Support Systems</b>								
Services	\$ 1,598.9	\$ 1,390.1	\$ 1,220.3	45%	47%	47%	15%	14%
License and resale fees	165.7	165.0	158.2	5%	6%	6%		4%
	<u>1,764.6</u>	<u>1,555.1</u>	<u>1,378.5</u>	<u>50%</u>	<u>53%</u>	<u>53%</u>	<u>13%</u>	<u>13%</u>
Total products and services	1,764.6	1,555.1	1,378.5	50%	53%	53%	13%	13%
Reimbursed expenses	74.7	50.7	29.6	2%	2%	1%	47%	71%
	<u>1,839.3</u>	<u>1,605.8</u>	<u>1,408.1</u>	<u>52%</u>	<u>54%</u>	<u>54%</u>	<u>15%</u>	<u>14%</u>
	<u>\$ 1,839.3</u>	<u>\$ 1,605.8</u>	<u>\$ 1,408.1</u>	<u>52%</u>	<u>54%</u>	<u>54%</u>	<u>15%</u>	<u>14%</u>
<b>Higher Education and Public Sector Systems</b>								
Services	\$ 417.9	\$ 126.9	\$ 80.0	12%	4%	3%	229%	59%
License and resale fees	95.7	22.4	21.8	3%	1%	1%	327%	3%
	<u>513.6</u>	<u>149.3</u>	<u>101.8</u>	<u>14%</u>	<u>5%</u>	<u>4%</u>	<u>244%</u>	<u>47%</u>
Total products and services	513.6	149.3	101.8	14%	5%	4%	244%	47%
Reimbursed expenses	11.3	29.6	30.8		1%	1%	(62)%	(4)%
	<u>524.9</u>	<u>178.9</u>	<u>132.6</u>	<u>15%</u>	<u>6%</u>	<u>5%</u>	<u>193%</u>	<u>35%</u>
	<u>\$ 524.9</u>	<u>\$ 178.9</u>	<u>\$ 132.6</u>	<u>15%</u>	<u>6%</u>	<u>5%</u>	<u>193%</u>	<u>35%</u>
<b>Software &amp; Processing Solutions</b>								
Services	\$ 2,016.8	\$ 1,517.0	\$ 1,300.3	57%	51%	50%	33%	17%
License and resale fees	261.4	187.4	180.0	7%	6%	7%	39%	4%
	<u>2,278.2</u>	<u>1,704.4</u>	<u>1,480.3</u>	<u>64%</u>	<u>58%</u>	<u>57%</u>	<u>34%</u>	<u>15%</u>
Total products and services	2,278.2	1,704.4	1,480.3	64%	58%	57%	34%	15%
Reimbursed expenses	86.0	80.3	60.4	2%	3%	2%	7%	33%
	<u>2,364.2</u>	<u>1,784.7</u>	<u>1,540.7</u>	<u>66%</u>	<u>60%</u>	<u>59%</u>	<u>32%</u>	<u>16%</u>
	<u>\$ 2,364.2</u>	<u>\$ 1,784.7</u>	<u>\$ 1,540.7</u>	<u>66%</u>	<u>60%</u>	<u>59%</u>	<u>32%</u>	<u>16%</u>
<b>Availability Services</b>								
Services	\$ 1,163.2	\$ 1,144.4	\$ 1,034.8	33%	39%	40%	2%	11%
License and resale fees	20.7	22.4	15.2	1%	1%	1%	(8)%	47%
	<u>1,183.9</u>	<u>1,166.8</u>	<u>1,050.0</u>	<u>33%</u>	<u>39%</u>	<u>40%</u>	<u>1%</u>	<u>11%</u>
Total products and services	1,183.9	1,166.8	1,050.0	33%	39%	40%	1%	11%
Reimbursed expenses	7.8	3.8	2.5				105%	52%
	<u>1,191.7</u>	<u>1,170.6</u>	<u>1,052.5</u>	<u>34%</u>	<u>40%</u>	<u>41%</u>	<u>2%</u>	<u>11%</u>
	<u>\$ 1,191.7</u>	<u>\$ 1,170.6</u>	<u>\$ 1,052.5</u>	<u>34%</u>	<u>40%</u>	<u>41%</u>	<u>2%</u>	<u>11%</u>
<b>Total Revenue</b>								
Services	\$ 3,180.0	\$ 2,661.4	\$ 2,335.1	89%	90%	90%	19%	14%
License and resale fees	282.1	209.8	195.2	8%	7%	8%	34%	7%
	<u>3,462.1</u>	<u>2,871.2</u>	<u>2,530.3</u>	<u>97%</u>	<u>97%</u>	<u>98%</u>	<u>23%</u>	<u>11%</u>