PLEXUS CORP
Form 10-Q
August 08, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended July 2, 2016
OR

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number 001-14423

PLEXUS CORP.
(Exact name of registrant as specified in charter)

Wisconsin	39-1344447
(State of Incorporation)	(IRS Employer Identification No.)

One Plexus Way
Neenah, Wisconsin 54957
(Address of principal executive offices)(Zip Code)
Telephone Number (920) 969-6000
(Registrant's telephone number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of August 4, 2016, there were 33,432,653 shares of Common Stock of the Company outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
PLEXUS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, except per share data)
Unaudited

	Three Months Ended		Nine Months Ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Net sales	$667,616	$669,585	$1,902,940	$1,985,560
Cost of sales	605,118	610,498	1,737,111	1,805,282
Gross profit	62,498	59,087	165,829	180,278
Selling and administrative expenses	29,775	30,456	84,812	91,722
Restructuring charges	1,805	—	5,229	1,691
Operating income	30,918	28,631	75,788	86,865
Other income (expense):				
Interest expense	(3,637)	(3,280)	(10,845)	(10,440)
Interest income	1,134	866	3,081	2,552
Miscellaneous	297	471	(2,451)	549
Income before income taxes	28,712	26,688	65,573	79,526
Income tax expense	2,613	2,894	8,239	9,059
Net income	$26,099	$23,794	$57,334	$70,467
Earnings per share:				
Basic	$0.78	$0.71	$1.72	$2.10
Diluted	$0.76	$0.69	$1.68	$2.05
Weighted average shares outstanding:				
Basic	33,402	33,653	33,379	33,617
Diluted	34,174	34,454	34,043	34,400
Comprehensive income:				
Net income	$26,099	$23,794	$57,334	$70,467
Other comprehensive income (loss) — net of income tax:				
Derivative instrument fair value adjustments	(1,329)	941	12,458	(5,017)
Foreign currency translation adjustments	(7,570)	(1,434)	(13,154)	(8,161)
Other comprehensive loss	(8,899)	(493)	(696)	(13,178)
Total comprehensive income	$17,200	$23,301	$56,638	$57,289

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

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PLEXUS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
Unaudited

	July 2, 2016	October 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$433,679	$357,106
Accounts receivable, net of allowances of $1,200 and $879, respectively	375,240	384,680
Inventories	575,121	569,371
Deferred income taxes	9,916	10,686
Prepaid expenses and other	25,911	22,882
Total current assets	1,419,867	1,344,725
Property, plant and equipment, net	300,816	317,351
Deferred income taxes	3,536	3,635
Other	36,731	36,677
Total non-current assets	341,083	357,663
Total assets	$1,760,950	$1,702,388
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$78,279	$3,513
Accounts payable	410,537	400,710
Customer deposits	87,333	81,359
Accrued salaries and wages	40,588	49,270
Other accrued liabilities	41,562	44,446
Total current liabilities	658,299	579,298
Long-term debt, capital lease obligations and other financing, net of current portion	184,479	259,257
Deferred income taxes	9,080	9,664
Other liabilities	13,917	11,897
Total non-current liabilities	207,476	280,818
Total liabilities	865,775	860,116
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.01 par value, 5,000 shares authorized, none issued or outstanding	—	—
Common stock, $.01 par value, 200,000 shares authorized, 51,082 and 50,554 shares issued, respectively, and 33,421and 33,500 shares outstanding, respectively	511	506
Additional paid-in capital	516,662	497,488
Common stock held in treasury, at cost, 17,661 and 17,054 shares, respectively	(532,882)	(509,968)
Retained earnings	918,051	860,717
Accumulated other comprehensive loss	(7,167)	(6,471)
Total shareholders' equity	895,175	842,272
Total liabilities and shareholders' equity	$1,760,950	$1,702,388

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

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PLEXUS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
Unaudited

	Nine Months Ended July 2, 2016			July 4, 2015		
Cash flows from operating activities:						
Net income	$	57,334		$	70,467	
Adjustments to reconcile net income to cash flows provided by operating activities:						
Depreciation	35,789			36,502		
Amortization of deferred financing fees	243			228		
Loss on sale of property, plant and equipment	267			33		
Deferred income tax net expense	142			107		
Share-based compensation expense	10,599			10,590		
Changes in operating assets and liabilities:						
Accounts receivable	4,985			(28,444		)
Inventories	(11,340		)	(65,637		)
Other current and noncurrent assets	(476		)	(4,017		)
Accounts payable	18,173			19,146		
Customer deposits	7,016			20,216		
Other current and noncurrent liabilities	(120		)	(3,621		)
Cash flows provided by operating activities	122,612			55,570		
Cash flows from investing activities:						
Payments for property, plant and equipment	(23,776		)	(26,898		)
Proceeds from sale of property, plant and equipment	48			261		
Cash flows used in investing activities	(23,728		)	(26,637		)
Cash flows from financing activities:						
	453,000			344,000		

Borrowings under credit facility				
Payments on debt and capital lease obligations	(457,088	)	(347,856	)
Debt issuance costs	(70	)	—	
Repurchases of common stock	(22,914	)	(22,520	)
Proceeds from exercise of stock options	11,162		11,333	
Minimum tax withholding related to vesting of restricted stock	(2,582	)	(2,762	)
Cash flows used in financing activities	(18,492	)	(17,805	)
Effect of exchange rate changes on cash and cash equivalents	(3,819	)	(2,889	)
Net increase in cash and cash equivalents	76,573		8,239	
Cash and cash equivalents:				
Beginning of period	357,106		346,591	
End of period	$ 433,679		$ 354,830	

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

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PLEXUS CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED JULY 2, 2016 AND JULY 4, 2015
Unaudited

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements included herein have been prepared by Plexus Corp. and its subsidiaries (together "Plexus" or the "Company") without audit and pursuant to the rules and regulations of the United States ("U.S.") Securities and Exchange Commission ("SEC"). In the opinion of the Company, the accompanying Condensed Consolidated Financial Statements reflect all adjustments, which include normal recurring adjustments necessary for the fair statement of the consolidated financial position of the Company as of July 2, 2016 and October 3, 2015, and the results of operations for the three and nine months ended July 2, 2016 and July 4, 2015, and the cash flows for the same nine month periods.

The Company's fiscal year ends on the Saturday closest to September 30. The Company also uses a "4-4-5" weekly accounting system for the interim periods in each quarter. Each quarter, therefore, ends on a Saturday at the end of the 4-4-5 period. Periodically, an additional week must be added to the fiscal year to re-align with the Saturday closest to September 30. The first quarter of fiscal 2015 included 14 weeks, all other fiscal quarters presented included 13 weeks.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted pursuant to the SEC's rules and regulations dealing with interim financial statements. However, the Company believes that the disclosures made in the Condensed Consolidated Financial Statements included herein are adequate to make the information presented not misleading. It is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's 2015 Annual Report on Form 10-K.

The Company's reportable segments consist of the "Americas" ("AMER"), "Asia-Pacific" ("APAC") and "Europe, Middle Eas and Africa" ("EMEA") segments. Refer to Note 9, "Reportable Segments," for further details on reportable segments.

Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments and are classified as Level 1 in the fair value hierarchy described below.

Fair Value of Financial Instruments

The Company holds financial instruments consisting of cash and cash equivalents, accounts receivable, certain deferred compensation assets held under trust arrangements, accounts payable, debt, derivatives, and capital lease obligations. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and capital lease obligations as reported in the Condensed Consolidated Financial Statements approximate fair value. Derivatives and certain deferred compensation assets held under trust arrangements are recorded at fair value. Accounts receivable are reflected at net realizable value based on anticipated losses due to potentially uncollectible balances. Anticipated losses are based on management's analysis of historical losses and changes in customers' credit status. The fair value of the Company's long-term debt was $247.7 million and $250.2 million as of July 2, 2016 and October 3, 2015, respectively. The carrying value of the Company's long-term debt was $250.0 million as of both July 2, 2016 and October 3, 2015. The Company uses quoted market prices when available or discounted cash flows to calculate the fair value of its debt. If measured at fair value in the financial statements, long-term debt (including the current portion) would be classified as Level 2 in the fair value hierarchy described below. Refer to Note 4, "Derivatives and Fair Value Measurements," for further details on derivatives.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (or exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The accounting guidance establishes a fair value hierarchy based on three levels of inputs that may be used to measure fair value. The input levels are:

Level 1: Quoted (observable) market prices in active markets for identical assets or liabilities.

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Level 2: Inputs other than Level 1 that are observable, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability.

2. Inventories

Inventories as of July 2, 2016 and October 3, 2015 consisted of (in thousands):

	July 2, 2016	October 3, 2015
Raw materials	$411,133	$407,637
Work-in-process	74,459	84,472
Finished goods	89,529	77,262
Total inventories	$575,121	$569,371

Customer deposits are received by the Company for various reasons, including to offset certain obsolete and excess inventory risks. The total amount of customer deposits related to inventory and included within current liabilities on the accompanying Condensed Consolidated Balance Sheets as of July 2, 2016 and October 3, 2015 was $77.0 million and $64.3 million, respectively.

3. Debt, Capital Lease Obligations and Other Financing

Debt, capital lease obligations and other financing amounts outstanding at July 2, 2016 and October 3, 2015 are summarized below (in thousands):

	July 2, 2016	October 3, 2015
Borrowing under the credit facility	$75,000	$75,000
5.20% senior notes, due June 15, 2018	175,000	175,000
Capital lease & non-cash financing of leased facility obligations	12,758	12,770
Total obligations	262,758	262,770
Less: current portion	(78,279)	(3,513)
Long-term debt, capital lease and other financing obligations, net of current portion	$184,479	$259,257

The Company has a senior unsecured revolving credit facility (the “Credit Facility”), which was amended on July 5, 2016, subsequent to the end of the fiscal 2016 third quarter, to, among other changes, extend its expiration from May 15, 2019, to July 5, 2021, and increase the maximum commitment from $265.0 million to $300.0 million. The Credit Facility, as amended, may be further increased to $500.0 million, generally by mutual agreement of the Company and the lenders, subject to certain customary conditions. For more information regarding the amendment of the Credit Facility, see Note 14, “Subsequent Events.” During the three and nine months ended July 2, 2016, the highest daily borrowing was $225.0 million and the average daily borrowing was $195.2 million and $185.2 million, respectively. The Company borrowed and repaid $164.0 million and $453.0 million, respectively, of revolving borrowings under the Credit Facility during the three and nine months ended July 2, 2016.

The financial covenants (as defined under the related Credit Agreement) require that the Company maintain, as of each fiscal quarter end, a maximum total leverage ratio and a minimum interest coverage ratio. As of July 2, 2016, the Company was in compliance with all financial covenants of the Credit Agreement. For the nine months ended July 2, 2016, borrowings under the Credit Facility, at the Company's option, bore interest at a defined base rate or the LIBOR rate plus, in each case, an applicable margin based upon the Company's leverage ratio as defined in the Credit Agreement. Rates would increase upon negative changes in specified Company financial metrics and would decrease to no less than LIBOR plus 1.00% or base rate plus 0.00% upon reduction in the current total leverage ratio. As of July 2, 2016, the borrowing rate under the Credit Agreement was LIBOR plus 1.125% (or 1.588%). As of July 2, 2016, the $75.0 million of outstanding borrowing under the Credit Facility is effectively at a fixed interest rate as a result of a $75.0 million interest rate swap contract discussed in Note 4, "Derivatives

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and Fair Value Measurements." The Company is required to pay an annual commitment fee based on the daily unused revolver credit commitment based on the Company's leverage ratio; the fee was 0.175% as of July 2, 2016.
The Company also has outstanding 5.20% senior notes, due on June 15, 2018 (the “Notes”). As of July 2, 2016 and October 3, 2015, $175.0 million of Notes was outstanding, and the Company was in compliance with all financial covenants relating to the Notes, which are generally consistent with those in the Credit Agreement discussed above. Subsequent to the end of the Company's fiscal third quarter, on July 5, 2016, the Company also amended the related Note Purchase Agreement; refer to Note 14, “Subsequent Events,” for further detail.

4. Derivatives and Fair Value Measurements

All derivatives are recognized in the accompanying Condensed Consolidated Balance Sheets at their estimated fair value. The Company uses derivatives to manage the variability of foreign currency obligations and interest rates. The Company has cash flow hedges related to variable rate debt and forecasted foreign currency obligations, in addition to non-designated hedges to manage foreign currency exposures associated with certain foreign currency denominated assets and liabilities. The Company does not enter into derivatives for speculative purposes.

ASC Topic 815-10, “Derivatives and Hedging,” requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with ASC Topic 815-10, the Company designates some foreign currency exchange contracts and float-to-fixed interest rate derivative contracts as cash flow hedges of forecasted foreign currency expenses and of variable rate interest payments, respectively.

Changes in the fair value of the derivatives that qualify as cash flow hedges are recorded in “Accumulated other comprehensive loss” in the accompanying Condensed Consolidated Balance Sheets until earnings are affected by the variability of the cash flows. In the next twelve months, the Company estimates that $2.8 million of unrealized gains, net of tax, related to cash flow hedges will be reclassified from other comprehensive loss into earnings. Changes in the fair value of the non-designated derivatives related to recognized foreign currency denominated assets and liabilities are recorded in "Other income (expense)" in the accompanying Condensed Consolidated Statements of Comprehensive Income.

The Company enters into forward currency exchange contracts for its Malaysian operations on a rolling basis. The Company had cash flow hedges outstanding with a notional value of $67.0 million as of both July 2, 2016 and October 3, 2015. These forward currency contracts fix the exchange rates for the settlement of future foreign currency obligations that have yet to be realized. The total fair value of the cash flow hedges was a $3.1 million asset as of July 2, 2016, and a $9.4 million liability as of October 3, 2015.

The Company had additional forward currency exchange contracts outstanding with a notional value of $86.7 million as of July 2, 2016; there were no such contracts outstanding as of October 3, 2015. The Company has not designated these derivative instruments as hedging instruments. In accordance with ASC Topic 815-10, the net settlement amount (fair value) related to these contracts is recorded on the Condensed Consolidated Balance Sheets as either a current or long-term asset or liability, depending on the term, and as an element of "Other income (expense)." The total fair value of these derivatives was a net $0.3 million asset as of July 2, 2016.

In 2013, the Company entered into a $75.0 million notional amount interest rate swap contract, which expires on May 5, 2017, related to $75.0 million of borrowings outstanding under the Credit Facility. This interest rate swap pays the Company variable interest at the one month LIBOR rate, and the Company pays the counterparty a fixed interest rate. The fixed interest rate for the contract is 0.875%. Based on the terms of the interest rate swap contract and the underlying borrowings outstanding under the Credit Facility, the interest rate contract was determined to be effective, and thus qualifies as a cash flow hedge. As such, any changes in the fair value of the interest rate swap are recorded in "Accumulated other comprehensive loss" on the accompanying Condensed Consolidated Balance Sheets until earnings are affected by the variability of cash flows. The total fair value of the interest rate swap contract as of July 2, 2016 and October 3, 2015, was a $0.3 million and $0.5 million liability, respectively. The notional amount of the

Company’s interest rate swap was $75.0 million as of both July 2, 2016 and October 3, 2015.

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The tables below present information regarding the fair values of derivative instruments (as defined in Note 1, "Basis of Presentation and Significant Accounting Policies") and the effects of derivative instruments on the Company's Condensed Consolidated Financial Statements:

Fair Values of Derivative Instruments
In thousands of dollars

	Asset Derivatives			Liability Derivatives		
		July 2, 2016	October 3, 2015		July 2, 2016	October 3, 2015
Derivatives designated as hedging instruments	Balance Sheet Classification	Fair Value	Fair Value	Balance Sheet Classification	Fair Value	Fair Value
Interest rate swaps	Prepaid expenses and other	$ —	$ —	Current liabilities – other	$ 263	$ 497
Forward contracts	Prepaid expenses and other	$ 3,055	$ —	Current liabilities – other	$ —	$ 9,408

Fair Values of Derivative Instruments
In thousands of dollars

	Asset Derivatives			Liability Derivatives		
		July 2, 2016	October 3, 2015		July 2, 2016	October 3, 2015
Derivatives not designated as hedging instruments	Balance Sheet Classification	Fair Value	Fair Value	Balance Sheet Classification	Fair Value	Fair Value
Forward contracts	Prepaid expenses and other	$ 357	$ —	Current liabilities – other	$ 91	$ —

Derivative Impact on Accumulated Other Comprehensive Loss
for the Three Months Ended
In thousands of dollars

	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) ("OCI") on Derivatives (Effective Portion)	
Derivatives in Cash Flow Hedging Relationships	July 2, 2016	July 4, 2015
Interest rate swaps	$ (100)	$ (3)
Forward contracts	$ (1,160)	$ (866)

Derivative Impact on Gain (Loss) Recognized in Income
for the Three Months Ended
In thousands of dollars

Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)

Derivatives in Cash Flow Hedging Relationships	Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	July 2, 2016	July 4, 2015
Interest rate swaps	Interest expense	$ (83)	$ (134)
Forward contracts	Selling and administrative expenses	$ 2	$ (191)
Forward contracts	Cost of goods sold	$ 73	$ (1,562)
Treasury rate locks	Interest expense	$ 77	$ 77

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized on Derivatives in Income	Amount of Gain (Loss) on Derivatives Recognized in Income	
		July 2, 2016	July 4, 2015
Forward contracts	Other income (expense)	$ 94	$ 37

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Derivative Impact on Accumulated Other Comprehensive Loss
for the Nine Months Ended
In thousands of dollars

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	
	July 2, 2016	July 4, 2015
Interest rate swaps	$ (70)	$ (876)
Forward contracts	$ 7,209	$ (7,044)

Derivative Impact on Gain (Loss) Recognized in Income
for the Nine Months Ended
In thousands of dollars

Derivatives in Cash Flow Hedging Relationships	Classification of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
		July 2, 2016	July 4, 2015
Interest rate swaps	Interest expense	$ (304)	$ (404)
Forward contracts	Selling and administrative expenses	$ (510)	$ (299)
Forward contracts	Cost of goods sold	$ (4,744)	$ (2,444)
Treasury rate locks	Interest expense	$ 239	$ 244

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized on Derivatives in Income	Amount of Gain (Loss) on Derivatives Recognized in Income	
		July 2, 2016	July 4, 2015
Forward contracts	Other income (expense)	$ (74)	$ 164

There were no gains or losses recognized in income for derivatives related to ineffective portions or amounts excluded from effectiveness testing for the three and nine months ended July 2, 2016 and July 4, 2015.

The following table lists the fair values of assets and (liabilities) of the Company’s derivatives as of July 2, 2016 and October 3, 2015, by input level as defined in Note 1, "Basis of Presentation and Significant Accounting Policies," (in thousands):

	Level 1	Level 2	Level 3	Total
July 2, 2016				
Interest rate swaps	$ —	$ (263)	$ —	$ (263)
Foreign currency forward contracts	$ —	$ 3,321	$ —	$ 3,321
October 3, 2015				
Interest rate swaps	$ —	$ (497)	$ —	$ (497)
Foreign currency forward contracts	$ —	$ (9,408)	$ —	$ (9,408)

The fair value of interest rate swaps and foreign currency forward contracts is determined using a market approach, which includes obtaining directly or indirectly observable values from third parties active in the relevant markets. The primary input in the fair value of the interest rate swaps is the relevant LIBOR forward curve. Inputs in the fair value of the foreign currency forward contracts include prevailing forward and spot prices for currency and interest rate forward curves.

5. Income Taxes

Income tax expense for the three and nine months ended July 2, 2016 was $2.6 million and $8.2 million, respectively. The effective tax rates for the three and nine months ended July 2, 2016 were 9.1 percent and 12.6 percent, respectively, compared to the effective tax rates for the three and nine months ended July 4, 2015, which were 10.8 percent and 11.4 percent, respectively.

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The effective tax rate for the three months ended July 2, 2016 decreased from the effective tax rate for the three months ended July 4, 2015, primarily due to the geographic distribution of worldwide earnings.
The effective tax rate for the nine months ended July 2, 2016 increased from the effective tax rate for the nine months ended July 4, 2015, primarily due to a decrease in pre-tax earnings in lower tax-rate jurisdictions and in jurisdictions where the Company maintains a valuation allowance. The Company’s effective tax rate will fluctuate with the geographic distribution of its worldwide earnings, changes in tax laws, disputes with taxing authorities, tax planning activities, adjustments to uncertain tax positions and changes to deferred tax assets and related valuation allowances.
There were no material additions to the amount of unrecognized tax benefits recorded for uncertain tax positions as of July 2, 2016 as compared to October 3, 2015. The Company recognizes accrued interest and penalties on uncertain tax positions as a component of income tax expense. The amount of interest and penalties recorded for the three and nine months ended July 2, 2016 was not material.
It is possible that one or more federal and state tax positions may be settled within the next 12 months. Settlement of these matters is not expected to have a material effect on the Company's consolidated results of operations, financial position and cash flows. The Company is not currently under examination by taxing authorities in the U.S. or any foreign jurisdictions in which the Company operates.
The Company maintains valuation allowances when it is more likely than not that all or a portion of a net deferred tax asset will not be realized. During the three months ended July 2, 2016, the Company continued to record a full valuation allowance against its net deferred tax assets in certain jurisdictions within the AMER and EMEA segments, as it was more likely than not that these assets would not be fully realized based primarily on historical performance. The Company will continue to provide a valuation allowance against its net deferred tax assets in each of the applicable jurisdictions going forward until it determines it is more likely than not that the deferred tax assets will be realized.

6. Earnings Per Share

The following is a reconciliation of the amounts utilized in the computation of basic and diluted earnings per share for the three and nine months ended July 2, 2016 and July 4, 2015 (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended				
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015			
Net income	$26,099	$ 23,794	$ 57,334	$	Prepaid expenses and other current assets	3	3

Total		$ 60	$ 3	$	$ 63
Liabilities					
Interest rate swap agreements	Other accrued expenses	$	$ 10	$	$ 10
Currency forward contracts	Other accrued expenses		2		2
Total		$	$ 12	$	$ 12

The following table summarizes assets and liabilities measured at fair value on a recurring basis at December 31, 2014 (in millions):

		Fair Value Measures Using			
	Balance Sheet Caption	**Level 1**	**Level 2**	**Level 3**	**Total**

Assets								
Money market funds	Cash and cash equivalents	$ 106	$		$		$ 106
Interest rate swap agreements	Other assets			1			1
Currency forward contracts	Prepaid expenses and other current assets			3			3
Total		$ 106	$	4	$		$ 110
Liabilities							
Interest rate swap agreements	Other accrued expenses	$	$	5	$	$	5
Currency forward contracts	Other accrued expenses			1			1
Total		$	$	6	$	$	6

Money market funds are recognized and measured at fair value in the Company s financial statements. Fair values of the interest rate swap agreements are calculated using a discounted cash flow model using observable applicable market swap rates and assumptions and are compared to market valuations obtained from brokers.

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The Company uses currency forward contracts to manage its exposure to fluctuations in costs caused by variations in Indian Rupee (INR) exchange rates. These INR forward contracts are designated as cash flow hedges. The fair value of these currency forward contracts is determined using currency exchange market rates, obtained from reliable, independent, third party banks, at the balance sheet date. The fair value of forward contracts is subject to changes in currency exchange rates. The Company has no ineffectiveness related to its use of currency forward contracts in connection with INR cash flow hedges. The Company expects to reclassify in the next twelve months approximately $3 million from other comprehensive income (loss) into earnings related to the Company s INR forward contracts.

The fair value of the trade name is categorized as Level 3, a non-recurring fair value measurement using significant unobservable inputs, and is estimated by discounted cash flows based on projected future revenues. This requires the use of various assumptions including projections of future cash flows, perpetual growth rates and discount rates. During the three months ended March 31, 2014, the Company recorded a $339 million trade name impairment charge. See Notes 1 and 7 of Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2014.

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, to the extent the underlying liability will be settled in cash, approximate carrying values because of the short-term nature of these instruments. Derivative financial instruments are recorded at fair value. The fair value of the Company s floating rate and fixed rate long-term debt (Level 2) is determined using actual market quotes and benchmark yields received from independent vendors.

The following table presents the carrying amount and estimated fair value of the Company s debt, including the current portion and excluding the interest rate swaps, as of December 31, 2014 and March 31, 2015 (in millions):

	December 31, 2014		**March 31, 2015**	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Floating rate debt	$ 2,458	$ 2,431	**$ 2,458**	**$ 2,463**
Fixed rate debt	2,211	2,286	**2,212**	**2,303**

8. Noncontrolling Interest:

A rollforward of SCC s noncontrolling interest for the three months ended March 31, 2015 is as follows (in millions):

	Noncontrolling interest		
	Temporary equity	Permanent equity	Total
Balances at December 31, 2014	$ 37	$ 1,490	$ 1,527
Net income	1	42	43
Purchase of treasury stock		(1)	(1)
Transfer intrinsic value of vested restricted stock units to temporary equity	1		1
Cancellation of put options due to employee terminations	(1)	1	

Other	(1)		(1)
Balances at March 31, 2015	$ 37	$ 1,532	$ 1,569

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A rollforward of SCC s noncontrolling interest for the three months ended March 31, 2014 follows (in millions):

	Noncontrolling interest		
	Temporary equity	Permanent equity	Total
Balances at December 31, 2013	$ 42	$ 1,741	$ 1,783
Net income		50	50
Issuance of common and preferred stock	(1)		(1)
Purchase of treasury stock		(2)	(2)
Impact of exchange of SpinCo common stock for SCCII preferred stock	(1)	(428)	(429)
Impact of modification of SunGard Awards	(4)		(4)
Impact of modification of SpinCo Awards	(6)		(6)
Transfer intrinsic value of vested restricted stock units to temporary equity	2		2
Cancellation of put options due to employee terminations	(4)	4	
Balances at March 31, 2014	$ 28	$ 1,365	$ 1,393

9. Income Taxes:

The effective income tax rates for the three month periods ended March 31, 2015 and 2014 were 41% and 24%, respectively. The Company s effective tax rate reflects changes in the mix of income or losses in jurisdictions with a wide range of tax rates, permanent differences between GAAP and local tax laws, the impact of valuation allowances, unrecognized tax benefits, and the timing of recording discrete items. The Company continues to generate losses in France which exceed the scheduled reversal of deferred tax liabilities. As a result, no benefit has been recorded for these losses for the three months ended March 31, 2015.

For the three months ended March 31, 2014, the benefit for income taxes includes a benefit of $138 million recorded as a discrete item related to the impairment of the trade name, an expense of $46 million recorded as a discrete item due to changes in certain state deferred tax rates, primarily driven by the change in the legal entity ownership of the trade name caused by the AS Split-Off, and an expense of $9 million recorded as a discrete item to increase the valuation allowance on state net operating losses driven by the change in management s judgment of their realizability due to the AS Split-Off.

In evaluating the realizability of deferred tax assets, management considered the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax planning strategies in making this assessment. Changes in the mix of income, losses in particular jurisdictions or the total amount of income for 2015 may significantly impact the estimated effective income tax rate for the year.

10. Segment Information:

The Company s measure of segment profit or loss is Adjusted EBITDA. Management believes Adjusted EBITDA is an effective tool to measure the Company s operating performance since it excludes non-cash items, including depreciation (which includes amortization of capitalized software), amortization of acquisition-related intangible

assets, trade name and goodwill impairment charges and stock compensation expense, and certain variable charges including severance and facility closure costs, management fees paid to the Sponsors and certain other costs. Management uses Adjusted EBITDA extensively to measure the financial performance of

SunGard and its reportable segments, and also to report the Company s results to its board of directors. The Company uses a similar measure, as defined in its senior secured credit agreement, for purposes of computing its debt covenants. The operating results apply to each of SCC, SCCII and SunGard unless otherwise noted.

The operating results for the three months ended March 31, 2015 and 2014 for each segment follow (in millions):

	Three Months Ended March 31, 2015				
	FS	PS&E	Sum of segments	Corporate (1)	Total
Software	$ 218	$ 34	$ 252	$	$ 252
SaaS and Cloud	268	9	277		277
Professional and Business Processing Services	131	11	142		142
Total revenue	$ 617	$ 54	$ 671	$	$ 671
Adjusted EBITDA	$ 174	$ 16	$ 190	$ (15)	$ 175
Depreciation (2)	26	3	29		29
Amortization of acquisition-related intangible assets	20	1	21		21
Capital expenditures	22	4	26	2	28

	Three Months Ended March 31, 2014				
	FS	PS&E	Sum of segments	Corporate (1)	Total
Software	$ 217	$ 34	$ 251	$	$ 251
SaaS and Cloud	259	9	268		268
Professional and Business Processing Services	124	10	134		134
Total revenue	$ 600	$ 53	$ 653	$	$ 653
Adjusted EBITDA	$ 139	$ 16	$ 155	$ (10)	$ 145
Depreciation (2)	22	2	24		24
Amortization of acquisition-related intangible assets	41	2	43		43
Capital expenditures	26	2	28		28

(1) Corporate is included to reconcile each item to the total for the Company.

Reconciliation of consolidated Adjusted EBITDA to income (loss) from continuing operations before income taxes:

	Three Months Ended March 31,	
	2014	2015
Adjusted EBITDA (including corporate)	$ 145	$ 175
Depreciation (2)	(24)	(29)
Amortization of acquisition-related intangible assets	(43)	(21)
Trade name impairment charge	(339)	

Severance and facility closure costs		(5)		(2)
Stock compensation expense		(9)		(10)
Management fees		(2)		(2)
Other costs (included in operating income)		(12)		4
Interest expense, net		(74)		(71)
Loss on extinguishment of debt		(61)		
Income (loss) from continuing operations before income taxes	$	(424)	$	44

(2) Includes amortization of capitalized software.

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11. Employee Termination Benefits and Facility Closures:

The following table provides a rollforward of the liability balances for workforce reductions and facility closures for the three months ended March 31, 2015 (in millions):

	Workforce-related	Facilities	Total
Balance at December 31, 2014	$ 12	$ 13	$ 25
Expense related to 2015 actions	4		4
Paid	(6)		(6)
Other adjustments	(2)	(1)	(3)
Balance at March 31, 2015	$ 8	$ 12	$ 20

The majority of the workforce-related actions are expected to be completed over the next 12 months. The facilities accruals are for ongoing obligations to pay rent for vacant space and are net of sublease reserves. The lengths of these obligations vary by lease with the majority ending in 2019.

12. Related Party Transactions:

Sponsor Transactions

In accordance with the Management Agreement between the Company and affiliates of the Sponsors, the Company recorded $2 million of management fees in sales, marketing and administration expenses for each of the three months ended March 31, 2014 and 2015. In the three months ended March 31, 2014, the Company recorded approximately $1 million of management fees in income (loss) from discontinued operations. At December 31, 2014 and March 31, 2015, the Company had accrued management fees included in other accrued expenses of $3 million and $2 million, respectively.

For the three months ended March 31, 2014, Goldman Sachs & Co. and/or its respective affiliates, received less than $1 million in connection with amendments to SunGard s Credit Agreement.

In addition to the amounts above, on March 31, 2014 the Company recorded $15 million of management fees, which is included in income (loss) from discontinued operations, as provided in the Management Agreement for services rendered in connection with the issuance of the $1.025 billion SpinCo Term Loan and $425 million of SpinCo Notes. Also during the first quarter of 2014, the Company recorded $1 million of management fees which is included in income (loss) from discontinued operations resulting from the sale of two FS businesses.

AS Transactions

In connection with the Global Master Services Agreement (GMSA) with AS, the Company incurred expenses of $8 million for services provided under the GMSA, most of which are included in cost of sales and direct operating expenses, in the condensed consolidated statement of comprehensive income (loss) for the three months ended March 31, 2015. At March 31, 2015, the Company had recorded approximately $4 million of accounts payable, and a $1 million prepaid maintenance contract from AS under the GMSA. The Company has a remaining commitment under the GMSA, which expires on March 31, 2016, of approximately $34 million.

In addition, during the three months ended March 31, 2015, AS purchased certain data center outsourcing services and treasury products from FS, for which FS recognized approximately $1 million of revenue.

13. Commitments and Contingencies:

The Company is presently a party to certain lawsuits arising in the ordinary course of its business. In the opinion of management, none of its current legal proceedings are expected to have a material impact on the Company s business or financial results. The Company s customer contracts generally include typical indemnification of customers, primarily for intellectual property infringement claims. Liabilities in connection with such obligations have not been material.

The Company has had patent infringement lawsuits filed against it or certain of its customers claiming that certain of its products infringe the intellectual property rights of others. Adverse results in these lawsuits may include awards of substantial monetary damages, costly royalty or licensing agreements, or limitations on the Company s ability to offer certain features, functionalities, products, or services, and may also cause the Company to change its business practices, and require development of non-infringing products or technologies, which could result in a loss of revenues and otherwise harm the Company s business. Also, certain

agreements with previously owned businesses of the Company require indemnification to the new owners for certain matters as part of the sale of those businesses. At March 31, 2015, the Company does not have any significant accruals related to patent indemnification or infringement claims.

The Company evaluates, on a regular basis, developments in its legal matters. The Company records a provision for a liability when it believes that it is both probable that a liability has been incurred, and the amount can be reasonably estimated.

With respect to any current legal proceedings or claims pending against the Company for which it has not made an accrual, but for which it is reasonably possible that a loss may occur, the Company is unable to estimate a range of loss due to various reasons, including, among others: (1) that the proceedings are in early stages, (2) that there is uncertainty as to the outcome of pending appeals, motions, or settlements, (3) that there are significant factual issues to be resolved, and (4) that there are novel legal issues presented. Such legal matters are inherently unpredictable and subject to significant uncertainties, some of which are beyond the Company s control. Based on current knowledge, the Company believes that the final outcome of the matters discussed above will not, individually or in the aggregate, have a material adverse effect on its business, consolidated financial position, results of operations, or cash flows. While the Company intends to vigorously defend these matters, in light of the uncertainties involved in such matters, there exists the possibility of adverse outcomes, and the final outcome of a particular matter could have a material adverse effect on results of operations or cash flows in a particular period.

The Company has recorded a reserve for unrecognized tax benefits and related accrued interest for certain matters. Also, the Company is under examination in various federal, state and local and foreign jurisdictions related to income and non-income tax matters. Based on current knowledge, the Company believes that resolution of these matters, giving recognition to the reserve for unrecognized tax benefits, will not have a materially adverse impact on its business, consolidated financial position, results of operations or cash flows.

The State of Delaware, Department of Finance, Division of Revenue (Unclaimed Property) and nine other states are currently conducting a joint examination of the books and records of certain wholly owned subsidiaries of the Company to determine compliance with the unclaimed property laws. Additionally, the Company has entered into voluntary disclosure agreements to address the potential unclaimed property exposure for certain entities not included in the scope of the ongoing unclaimed property examination. The potential exposure related to the examination and the voluntary disclosure programs is not currently determinable.

14. Subsequent Event

On May 6, 2015, SunGard announced that SCC is considering pursuing an initial public offering of common stock in 2015. The timing, number of shares to be offered and the price range of the proposed offering have not yet been determined. The Company expects to use net proceeds of the proposed offering to repay debt.

15. Supplemental Guarantor Condensed Consolidating Financial Statements:

SunGard s senior unsecured notes are jointly and severally, fully and unconditionally guaranteed on a senior unsecured basis and the senior subordinated notes are jointly and severally, fully and unconditionally guaranteed on an unsecured senior subordinated basis, in each case, subject to certain exceptions, by substantially all wholly-owned domestic subsidiaries of SunGard (collectively, the Guarantors). Each of the Guarantors is 100% owned, directly or indirectly, by SunGard. None of the other subsidiaries of SunGard, either direct or indirect, nor any of the Holding Companies, guarantee the senior notes and senior subordinated notes (Non-Guarantors). The Guarantors and SunGard Holdco LLC also unconditionally guarantee the senior secured credit facilities. The Guarantors are subject to release under

certain circumstances as described below.

The indentures evidencing the guarantees provide for a Guarantor to be automatically and unconditionally released and discharged from its guarantee obligations in certain circumstances, including upon the earliest to occur of:

- The sale, exchange or transfer of the subsidiary s capital stock or all or substantially all of its assets;
- Designation of the Guarantor as an unrestricted subsidiary for purposes of the indenture covenants;
- Release or discharge of the Guarantor s guarantee of certain other indebtedness; or
- Legal defeasance or covenant defeasance of the indenture obligations when provision has been made for them to be fully satisfied.

As a result of the AS Split-Off, all U.S. subsidiaries of AS were removed as guarantors as of March 31, 2014.

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The following tables present the financial position, results of operations and cash flows of SunGard (referred to as Parent Company for purposes of this note only), the Guarantor subsidiaries, the Non-Guarantor subsidiaries and Eliminations as of December 31, 2014 and March 31, 2015, and for the three month periods ended March 31, 2014 and 2015, to arrive at the information for SunGard on a consolidated basis. SCC and SCCII are neither parties to nor guarantors of the debt issued as described in Note 5 of Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for 2014.

(in millions)	Supplemental Condensed Consolidating Balance Sheet December 31, 2014				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current:					
Cash and cash equivalents	$ 202	$ 1	$ 244	$	$ 447
Intercompany balances		3,049	500	(3,549)	
Trade receivables, net	1	446 [a]	239		686
Prepaid expenses, taxes and other current assets	32	43	39	(2)	112
Total current assets	235	3,539	1,022	(3,551)	1,245
Property and equipment, net		94	58		152
Intangible assets, net	68	348	262		678
Trade name		672			672
Deferred income taxes	69			(69)	
Intercompany balances	194	8	154	(356)	
Goodwill		3,099	661		3,760
Investment in subsidiaries	8,039	1,366		(9,405)	
Total Assets	$ 8,605	$ 9,126	$ 2,157	$ (13,381)	$ 6,507
Liabilities and Equity					
Current:					
Short-term and current portion of long-term debt	$	$	$	$	$
Intercompany balances	3,549			(3,549)	
Accounts payable and other current liabilities	59	510	427	(2)	994
Total current liabilities	3,608	510	427	(3,551)	994
Long-term debt	4,529		140		4,669
Intercompany debt	162		194	(356)	
Deferred and other income taxes	101	559	17	(69)	608
Other liabilities		18	13		31

Total liabilities	8,400	1,087	791	(3,976)	6,302
Total equity	205	8,039	1,366	(9,405)	205
Total Liabilities and Equity	$ 8,605	$ 9,126	$ 2,157	$ (13,381)	$ 6,507

(a) This balance is primarily comprised of a receivable from the Company s accounts receivable financing subsidiary, which is a non-guarantor, resulting from the normal, recurring sale of accounts receivable under the receivables facility. In a liquidation, the first $140 million (plus interest) of collections of accounts receivable sold to this subsidiary are due to the receivables facility lender. The remaining balance would be available for collection for the benefit of the Guarantors.

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Supplemental Condensed Consolidating Balance Sheet
March 31, 2015

(in millions)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current:					
Cash and cash equivalents	$ 256	$	$ 299	$	555
Intercompany balances		3,172	472	(3,644)	
Trade receivables, net		395 [(a)]	164		559
Prepaid expenses, taxes and other current assets	23	45	35	(2)	101
Total current assets	279	3,612	970	(3,646)	1,215
Property and equipment, net	1	95	51		147
Intangible assets, net	65	329	246		640
Trade name		672			672
Deferred income taxes	69			(69)	
Intercompany balances	172	7	135	(314)	
Goodwill		3,099	612		3,711
Investment in subsidiaries	8,106	1,322		(9,428)	
Total Assets	$ 8,692	$ 9,136	$ 2,014	$ (13,457)	$ 6,385
Liabilities and Equity					
Current:					
Short-term and current portion of long-term debt	$	$	$ 1	$	1
Intercompany balances	3,644			(3,644)	
Accounts payable and other current liabilities	115	458	347	(2)	918
Total current liabilities	3,759	458	348	(3,646)	919
Long-term debt	4,529		140		4,669
Intercompany debt	142		172	(314)	
Deferred and other income taxes	94	556	18	(69)	599
Other liabilities		16	14		30
Total liabilities	8,524	1,030	692	(4,029)	6,217
Total equity	168	8,106	1,322	(9,428)	168
Total Liabilities and Equity	$ 8,692	$ 9,136	$ 2,014	$ (13,457)	$ 6,385

(a)

This balance is primarily comprised of a receivable from the Company s accounts receivable financing subsidiary, which is a non-guarantor, resulting from the normal, recurring sale of accounts receivable under the receivables facility. In a liquidation, the first $140 million (plus interest) of collections of accounts receivable sold to this subsidiary are due to the receivables facility lender. The remaining balance would be available for collection for the benefit of the Guarantors.

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Supplemental Condensed Consolidating Schedule of Comprehensive Income (Loss)
Three Months Ended March 31, 2014

(in millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$	$ 471	$ 268	$ (86)	$ 653
Costs and expenses	25	740	263	(86)	942
Operating income (loss)	(25)	(269)	5		(289)
Net interest income (expense)	(69)		(5)		(74)
Net earnings (losses) of equity affiliates	(198)	7		191	
Other income (expense)	(61)				(61)
Income (loss) from continuing operations before income taxes	(353)	(262)		191	(424)
Benefit from (provision for) income taxes	40	63	(2)		101
Income (loss) from continuing operations	(313)	(199)	(2)	191	(323)
Income (loss) from discontinued operations, net of tax	(27)	1	9		(17)
Net income (loss)	$ (340)	$ (198)	$ 7	$ 191	$ (340)
Comprehensive income (loss)	$ (315)	$ (226)	$ 26	$ 200	$ (315)

As discussed in Note 1, all of the previously-issued interim financial statements included in Quarterly Reports on Form 10-Q for 2014 included an error in the Condensed Consolidated Statements of Comprehensive Income (Loss) related to the removal of the cumulative foreign currency translation loss associated with the AS businesses that were splitoff on March 31, 2014. The removal of the cumulative foreign currency translation loss was reflected in the 2014 Supplemental Condensed Consolidating Schedule of Comprehensive Income (Loss). However, the inclusion of this item was not appropriate since it relates to the distribution of the AS businesses to our owners and should have been excluded from the 2014 Other Comprehensive Income according to GAAP. Management does not believe the error is material to any of the previously-issued financial statements. The table below shows the impact of the correction of this error for the three months ended March 31, 2014.

		Three Months Ended March 31, 2014	
		As Reported	As Revised
Comprehensive Income	Parent	$ (397)	$ (315)
Comprehensive Income	Guarantor	(259)	(226)
Comprehensive Income	Non-Guarantor	(23)	26
Comprehensive Income	Eliminations	282	200

Supplemental Condensed Consolidating Schedule of Comprehensive Income (Loss)
Three Months Ended March 31, 2015

(in millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$	$ 483	$ 279	$ (91)	$ 671
Costs and expenses	23	369	255	(91)	556
Operating income (loss)	(23)	114	24		115
Net interest income (expense)	(67)		(4)		(71)
Net earnings (losses) of equity affiliates	91	14		(105)	
Income (loss) from continuing operations before income taxes	1	128	20	(105)	44
Benefit from (provision for) income taxes	27	(37)	(8)		(18)
Income (loss) from continuing operations	28	91	12	(105)	26
Income (loss) from discontinued operations, net of tax			2		2
Net income (loss)	$ 28	$ 91	$ 14	$ (105)	$ 28
Comprehensive income (loss)	$ (43)	$ 44	$ (32)	$ (12)	$ (43)

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(in millions)	Supplemental Condensed Consolidating Schedule of Cash Flows Three Months Ended March 31, 2014				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flow from operations:					
Net income (loss)	$ (340)	$ (198)	$ 7	$ 191	$ (340)
Income (loss) from discontinued operations	(27)	1	9		(17)
Income (loss) from continuing operations	(313)	(199)	(2)	191	(323)
Non cash adjustments	283	285	23	(191)	400
Changes in operating assets and liabilities	(20)	30	(1)		9
Cash flow from (used in) continuing operations	(50)	116	20		86
Cash flow from (used in) discontinued operations	(41)	52	25		36
Cash flow from (used in) operations (a)	(91)	168	45		122
Investment activities:					
Intercompany transactions	6	(19)	43	(30)	
Cash paid for property and equipment, and software	(1)	(17)	(10)		(28)
Cash provided by (used in) continuing operations	5	(36)	33	(30)	(28)
Cash provided by (used in) discontinued operations	1,041	(41)	(995)		5
Cash provided by (used in) investment activities	1,046	(77)	(962)	(30)	(23)
Financing activities:					
Intercompany dividends		(15)	(15)	30	
Net repayments of long-term debt	(1,268)		(62)		(1,330)
Other financing activities	(8)				(8)
Cash provided by (used in) continuing operations	(1,276)	(15)	(77)	30	(1,338)
Cash provided by (used in) discontinued operations		(80)	967		887
Cash provided by (used in) financing activities	(1,276)	(95)	890	30	(451)

Effect of exchange rate changes on cash			1		1
Increase (decrease) in cash and cash equivalents	(321)	(4)	(26)		(351)
Beginning cash and cash equivalents (b)	403	2	301		706
Ending cash and cash equivalents	$ 82	$ (2)	$ 275	$	$ 355

(a) Cash flows from (used in) operations for the Parent Company and Guarantor Subsidiaries do not include any amounts related to their respective stand-alone income tax liabilities as the Company has not historically cash settled the intercompany balances associated with the push down of such liabilities to the Guarantor Subsidiaries. During the three months ended March 31, 2014, the Parent Company allocated approximately $67 million of tax liabilities to its Guarantor Subsidiaries. During the three months ended March 31, 2014, the Parent Company and the Guarantor Subsidiaries decided to effect a non-cash settlement of the accumulated income tax receivable and payable balances in the amount of approximately $1.5 billion. Therefore, these transactions are not reflected in the Condensed Consolidating Statement of Cash Flows presented above.

(b) Includes cash of discontinued operations.

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Supplemental Condensed Consolidating Schedule of Cash Flows
Three Months Ended March 31, 2015

(in millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flow from operations:					
Net income (loss)	$ 28	$ 91	$ 14	$ (105)	$ 28
Income (loss) from discontinued operations			2		2
Income (loss) from continuing operations	28	91	12	(105)	26
Non cash adjustments	(82)	13	22	105	58
Changes in operating assets and liabilities	21	37	12		70
Cash flow from (used in) continuing operations	(33)	141	46		154
Cash flow from (used in) discontinued operations					
Cash flow from (used in) operations (a)	(33)	141	46		154
Investment activities:					
Intercompany transactions	93	(111)	42	(24)	
Cash paid for acquired businesses, net of cash acquired			(4)		(4)
Cash paid for property and equipment, and software	(2)	(19)	(7)		(28)
Cash provided by (used in) continuing operations	91	(130)	31	(24)	(32)
Cash provided by (used in) discontinued operations			1		1
Cash provided by (used in) investment activities	91	(130)	32	(24)	(31)
Financing activities:					
Intercompany dividends		(12)	(12)	24	
Other financing activities	(4)				(4)
Cash provided by (used in) continuing operations	(4)	(12)	(12)	24	(4)
Cash provided by (used in) discontinued operations					
Cash provided by (used in) financing activities	(4)	(12)	(12)	24	(4)

Effect of exchange rate changes on cash			(11)		(11)
Increase (decrease) in cash and cash equivalents	54	(1)	55		108
Beginning cash and cash equivalents	202	1	244		447
Ending cash and cash equivalents	$ 256	$	$ 299	$	$ 555

(a) Cash flows from (used in) operations for the Parent Company and Guarantor Subsidiaries do not include any amounts related to their respective stand-alone income tax liabilities as the Company has not historically cash settled the intercompany balances associated with the push down of such liabilities to the Guarantor Subsidiaries. During the three months ended March 31, 2015, the Parent Company allocated approximately $40 million of tax liabilities to its Guarantor Subsidiaries.

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

Introduction

The following discussion and analysis supplements management s discussion and analysis in the Company s Annual Report on Form 10-K for the year ended December 31, 2014 and presumes that readers are familiar with the discussion and analysis in that filing. The following discussion and analysis includes historical and certain forward-looking information that should be read together with the accompanying Condensed Consolidated Financial Statements, related footnotes, and the discussion below of certain risks and uncertainties that could cause future operating results to differ materially from historical results or from the expected results indicated by forward-looking statements. The following discussion reflects the results of operations and financial condition of SunGard, which are materially the same as the results of operations and financial condition of SCC and SCCII. Therefore, the discussions provided are applicable to each of SCC, SCCII and SunGard unless otherwise noted.

We are supplementing certain GAAP measures with comparable measures on a constant-currency basis, a non-GAAP measure, which excludes the impacts from changes in currency translation. We believe providing explanations of the year to year variances in our results on a constant-currency basis is meaningful for assessing how our underlying businesses have performed due to the fact that we have international operations that are material to our overall operations. As a result, total revenues and expenses are affected by changes in the U.S. Dollar against international currencies. To present our constant currency year over year changes, current period results for entities reporting in currencies other than U.S. Dollars are converted to U.S. Dollars at the average exchange rate used in the prior year period rather than the actual exchange rates in effect during the current year period. In each of the tables below, we present the percent change based on actual, unrounded results in reported currency and in constant currency.

Overview

SunGard s business model is founded on software, which is surrounded by services, resulting in strong recurring revenue streams with attractive profit margins. At the heart of our business model is SunGard s proprietary intellectual property that is delivered both as traditional software licenses and also as SaaS offerings. Our license offerings have traditionally been run on our customer premises but are increasingly delivered from SunGard s cloud computing centers. In addition, we provide professional services and business processing services (collectively, services).

We classify our revenue into three categories:

(1) Software revenue

(2) SaaS and Cloud revenue

(3) Professional and Business Processing Services revenue

Our revenue streams are highly recurring as a result of long-running contracts and strong customer renewal rates for software maintenance, rentals, SaaS and Cloud. These offerings comprise approximately 70% of our overall revenue stream. We believe this high-margin revenue stream provides good visibility to future results and allows us to manage spending and profit proactively. We expect these offerings to grow in the future.

Software Revenue

For the first quarter of 2015, our Software revenue represented approximately 38% of our total revenue and was comprised of traditional software license fees, maintenance and support fees, and fees from the resale of third party software licenses. These software license fees include term licenses, perpetual licenses and rental fees for customers who would prefer a periodic fee instead of a larger up-front payment. Maintenance and support fees provide customers with periodic technology updates and interactive support related to our software. Approximately three-fourths of our Software revenue is recurring due to our long-term maintenance and rental revenue streams and strong customer renewal rates.

The remainder of our Software revenue is generated from software license sales to new and existing customers. This is high margin revenue which may fluctuate from quarter to quarter. As a result, the timing of these license sales in any given quarter can impact that quarter s revenue growth and profitability.

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SaaS and Cloud Revenue

For the first quarter of 2015, our SaaS and Cloud offerings comprised approximately 41% of our total revenue. SaaS and Cloud offerings are delivered from SunGard data centers and provide customers with a secure and reliable environment operated by qualified SunGard personnel. These offerings allow customers to take advantage of SunGard s deep domain expertise while avoiding the upfront cost of licensing and IT infrastructure. SaaS and Cloud revenue also includes revenue from our proprietary trading algorithms and trade execution network.

These SaaS and Cloud offerings are generally sold on multi-year contracts and have historically generated high customer renewal rates. As such, they form a strong recurring revenue stream for our Company. Consistent with industry trends, we expect SaaS and Cloud revenue to become a greater portion of our overall revenue going forward.

Professional and Business Processing Services Revenue

For the first quarter of 2015, Professional and Business Processing Services revenue comprised approximately 21% of our total revenue.

Professional services offerings allow customers to install, optimize and integrate SunGard s software into their computing environment. While this is not a recurring revenue stream, per se, it has generated a consistent revenue stream of $500 million to $525 million annually for the past three fiscal years. The profit margin on this revenue stream is comparable to other professional services firms but lower than our software offerings. We are currently investing to expand our global delivery capacity further improving customers adoption of our core technologies, but this investment puts some short-term pressure on our professional services profit margins.

Our business processing services offerings typically provide back-office processing services to our customers where the process is built on a SunGard application. The combination of our industry and application knowledge, coupled with our customers desire to focus on their core competencies, is resulting in continued growth in these business processing services offerings.

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Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

Consolidated Results of Operations Unaudited

	Three Months Ended March 31,				Year over Year Change	
			% of Revenue		As	At Constant
($ in millions)	2014	2015	2014	2015	Reported	Currency
Revenue	$ 653	$ 671	100%	100%	3%	6%
Costs and expenses:						
Cost of sales and direct operating	269	268	41%	40%	0%	3%
Sales, marketing and administration	168	152	26%	23%	-10%	-6%
Product development and maintenance	99	86	15%	13%	-12%	-7%
Depreciation	24	29	4%	4%	17%	21%
Amortization of acquisition-related intangible assets	43	21	7%	3%	-51%	-49%
Trade name impairment	339		52%	0%	nm	nm
Total costs and expenses	942	556	144%	83%	-41%	-39%
Operating income (loss)	(289)	115	-44%	17%	140%	139%
Operating margin	***-44%***	***17%***			***61.3 pts***	***60.5 pts***
Other income (expense):						
Interest expense and amortization of deferred financing fees	(74)	(71)	-11%	-10%	5%	5%
Loss on extinguishment of debt	(61)		-9%	0%	nm	nm
Other income (expense)	(135)	(71)	-21%	-10%	48%	49%
Income (loss) from continuing operations before income taxes	(424)	44	-65%	7%	110%	110%
Benefit from (provision for) income taxes	101	(18)	15%	-3%	-118%	-119%
Income (loss) from continuing operations before income taxes	(323)	26	-50%	4%	108%	107%
Income (loss) from discontinued operations, net of tax	(17)	2	-3%	0%	112%	112%
Net income (loss)	$ (340)	$ 28	-52%	4%	108%	108%
Other Financial Information						
Adjusted EBITDA (1)	$ 145	$ 175	22%	26%	21%	20%

Note: Columns may not total due to rounding.

nm = not meaningful

(1) Adjusted EBITDA is a non-GAAP financial measure we use to evaluate the performance of SunGard and its reportable segments. Please refer to Non-GAAP Financial Measures for more information and a reconciliation to the nearest comparable GAAP financial measure.

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Revenue:

For the first quarter of 2015, consolidated revenue of $671 million grew 3% as reported and 6% on a constant currency basis. Our revenue growth was largely due to market reception of our new technology, continued growth in the emerging markets, and growth in the broad array of services that surround and support our software. The mix of our revenue was similar year-over-year with Software representing approximately 38% of total revenue, SaaS and Cloud revenue representing approximately 41% of total revenue, and Professional and Business Processing Services revenue representing approximately 21% of total revenue. Key drivers in our revenue categories are as follows:

- Software revenue grew 5% at constant currency in the current year quarter from strong license sales of our latest technology to both new and existing customers. Reported software license fee revenue was $44 million, a $9 million, or 24% increase, from the prior year period. Software license fees increased 32% on a constant-currency basis.

- SaaS and Cloud revenue also grew 5% at constant currency in current year quarter primarily driven by increased volumes in our SaaS offerings and greater adoption of our Cloud offerings, supported by our global Cloud delivery centers.

- Professional and Business Processing Services revenue increased approximately 9% at constant currency in the first quarter of 2015 from the prior year period primarily due to growth in professional services as customers increased their spending to implement our solutions and integrate them into their operating environments.

Cost of Sales and Direct Operating:

Cost of sales and direct operating expense was 40% and 41% of total revenue in the three months ended March 31, 2015 and 2014, respectively. Cost of sales and direct operating expense increased $9 million, or 3%, at constant currency primarily due to an increase in expenses associated with customer trading activity in our broker/dealer business and a $3 million increase in employment-related costs partly due to the increase in professional services revenue, partially offset by $5 million of currency transaction gains.

Sales, Marketing and Administration:

Sales, marketing and administration expense was 23% and 26% of total revenue in the three months ended March 31, 2015 and 2014, respectively. Sales, marketing and administration expense decreased $10 million, or 6%, at constant currency primarily due to approximately $10 million of one-time, strategic initiative expenses related to the AS Split-Off in the first quarter of 2014 and a $1 million decrease in severance and facilities restructuring expenses, partially offset by a $5 million increase in medical expenses.

Product Development and Maintenance:

Product development and maintenance expense was 13% and 15% of total revenue in the three months ended March 31, 2015 and 2014, respectively. Product development and maintenance expense decreased $7 million, or 7%, at constant currency primarily due to a $4 million decrease in employment-related expenses and a $2 million increase in capitalized software related to our technology investments.

Depreciation:

Depreciation expense was 4% of total revenue in each of the three months ended March 31, 2015 and 2014. Depreciation expense increased 21% at constant currency primarily due to increased capitalization of software assets in the past year.

Amortization of Acquisition-Related Intangible Assets:

Amortization of acquisition-related intangible assets was 3% and 7% of total revenue in the three months ended March 31, 2015 and 2014, respectively. Amortization of acquisition-related intangible assets decreased 49% at constant currency primarily due to software intangible assets that were fully amortized during 2014.

Trade Name Impairment:

The AS Split-Off triggered an interim impairment test of the carrying value of the SunGard trade name as of March 31, 2014 due to the AS Split-Off. Based on the results of the impairment test, the fair value of the trade name was determined to be lower than its carrying value and resulted in a $339 million impairment of the trade name as of March 31, 2014. There was no trade name impairment in the three months ended March 31, 2015.

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Operating Income:

Operating income increased 139% to $115 million in the three months ended March 31, 2015 from an operating loss of $289 million for the three months ended March 31, 2014. Operating income was impacted by the items discussed above. Our operating margin increased by 60.5 points primarily due to the 51.9 margin point impact of the trade name impairment charge, the 3.4 margin point impact of the decrease in amortization of acquisition-related intangible assets, and the 1.5 margin point impact of the decrease in strategic initiative expenses.

Adjusted EBITDA:

Adjusted EBITDA for the three months ended March 31, 2015 was $175 million, an increase of $30 million, or 20%, from the prior year period. Our reported Adjusted EBITDA margin increased 3.9 points to 26.1% for the three months ended March 31, 2015. On a constant-currency basis, our Adjusted EBITDA margin increased 3.1 points, driven primarily by the strength of our software and SaaS sales, improved professional services profitability, decreases in employee-related product development spending, and lower bad debt expense from the sale of a customer bankruptcy claim, partially offset by increased medical expenses.

Interest expense and amortization of deferred financing costs:

Interest expense was $71 million and $74 million for the three months ended March 31, 2015 and 2014, respectively. The $3 million decrease in interest expense and amortization of deferred financing costs was primarily due to a $3 million decrease in amortization of deferred financing costs resulting from the repayment and retirement of debt resulting from the AS Split-Off and fees paid in connection with the February 2014 amendment of the Credit Agreement.

Loss on extinguishment of debt:

Loss on extinguishment of debt was $61 million for the three months ended March 31, 2014. The loss on extinguishment of debt in 2014 includes (i) a $36 million loss associated with the exchange of approximately $425 million of senior notes issued by Sungard Availability Services, Inc. (SpinCo) (SpinCo Notes) for approximately $389 million of senior notes due 2018 issued by SunGard (SunGard Notes) in connection with the AS Split-Off and (ii) the write-off of $25 million of deferred financing fees resulting from the early repayment of debt during the first quarter (see Note 1 of Notes to Condensed Consolidated Financial Statements).

Benefit from (provision for) income taxes:

The effective income tax rates for the three month periods ended March 31, 2015 and 2014 were 41% and 24%, respectively. The Company s effective tax rate reflects changes in the mix of income or losses in jurisdictions with a wide range of tax rates, permanent differences between GAAP and local tax laws, the impact of valuation allowances, unrecognized tax benefits and the timing of recording discrete items. The tax rate for the three month period ended March 31, 2015 reflects an increase in the expected full year effective tax rate due primarily to a change in the mix of income by country and the inability to utilize net operating losses generated in certain countries. Further changes in the mix of income, losses in particular jurisdictions or the total amount of income for 2015 may significantly impact the estimated effective income tax rate for the year.

The tax rate for the three month period ended March 31, 2014 includes a benefit of $138 million recorded as a discrete item related to the impairment of the trade name, an expense of $46 million recorded as a discrete item due to changes in certain state deferred tax rates, primarily driven by the change in the legal entity ownership of the trade name

caused by the AS Split-Off, and an expense of $9 million recorded as a discrete item to increase the valuation allowance on state net operating losses driven by the change in management s judgment of their realizability due to the AS Split-Off.

Loss from discontinued operations, net of tax:

Loss from discontinued operations, net of tax, was $17 million in the three months ended March 31, 2014. On March 31, 2014, we completed the AS Split-Off. Income (loss) from discontinued operations reflects the results of our AS business and two smaller FS subsidiaries that were sold in January 2014. Included in loss from discontinued operations in the three months ended March 31, 2014 is a gain on the sale of two FS businesses of approximately $23 million. Also included in loss from discontinued operations in the three months ended March 31, 2014 is sponsor management fee expense of approximately $15 million payable under the Management Agreement for services related to the issuance of the $1.025 billion AS term loan and $425 million of SpinCo Notes in connection with the AS Split-Off.

(Income) attributable to the noncontrolling interest (SCC only):

For SCC, accreted dividends on SCCII s cumulative preferred stock were $43 million and $50 million for the three months ended March 31, 2015 and 2014, respectively. The decrease in accreted dividends is due to the decrease in outstanding preferred shares resulting from the share exchange as part of the AS Split-Off, partially offset by compounding of the cumulative, undeclared dividend.

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Segment Results of Operations:

Our business is organized into two segments, FS and PS&E. Corporate spending, which includes the costs of various support functions such as corporate finance, human resources, and legal, are not allocated to our reporting segments. As reflected below, we measure our financial performance using Adjusted EBITDA, which is a non-GAAP financial measure. We believe Adjusted EBITDA is an effective tool to measure our operating performance since it excludes non-cash items and certain variable charges. We use Adjusted EBITDA extensively to measure the financial performance of SunGard and its reportable segments, and also to report our results to our board of directors. Please refer to Non-GAAP Financial Measures for more information and a reconciliation to the nearest comparable GAAP financial measure.

Financial Systems segment:

	Three Months Ended March 31,		Year over Year Change	
	2014	2015	Reported	Constant Currency
	(in millions)			
Software	$ 217	$ 218	1%	5%
SaaS and Cloud	259	268	4%	5%
Professional and Business Processing Services	124	131	5%	10%
Total FS Revenue	$ 600	$ 617	3%	6%
Adjusted EBITDA	$ 139	$ 174	25%	25%
Adjusted EBITDA margin	23.2%	28.1%	4.9 pts	4.0 pts

Revenue:

In the first quarter of 2015, FS revenue grew 6% driven by Software, SaaS and Cloud, and Professional and Business Processing Services. These results reflect the customer reception of our new technology offerings, continued growth in the emerging markets, and growth in the array of services that surround and support our software. In the first quarter of 2015 and 2014, Software revenue was approximately 35% and 36%, respectively, SaaS and Cloud revenue was approximately 44% and 43%, respectively, and Professional and Business Processing Services revenue was approximately 21% of FS revenue.

Software increased 5% at constant currency in the first quarter of 2015 from the prior year period. Software revenue grew as a result of strong license sales of our latest technology to both new and existing customers. Reported software license fee revenue was $42 million, a $9 million, or 27% increase, from the prior year period. Software license fees increased 36% on a constant-currency basis.

SaaS and Cloud revenue increased approximately 5% at constant currency in the first quarter of 2015 from the prior year period. This growth was driven by increased volumes in our SaaS offerings and greater adoption of our Cloud offerings, supported by our global Cloud delivery centers.

Professional and Business Processing Services revenue increased approximately 10% at constant currency in the first quarter of 2015 from the prior year period primarily due to growth in professional services tied to our new technology

offerings and increasing global reach, as customers increased their spending to implement our solutions and integrate them into their operating environments.

Revenue from emerging markets, comprised of China, India, Southeast Asia, the Middle East, Africa, Latin America and Eastern Europe, increased 20% in the first quarter of 2015, driven by strong sales of our technology. Revenue in established markets, comprised of the US, Western Europe, Japan and Australia, increased approximately 5% in the first quarter of 2015.

Adjusted EBITDA:

FS Adjusted EBITDA was $174 million in the first quarter of 2015, an increase of 25% from the prior year period. On a constant currency basis, FS adjusted EBITDA also increased 25% in the quarter. The FS Adjusted EBITDA margin was 28.1% and 23.2% for the first quarter of 2015 and 2014, respectively.

The FS Adjusted EBITDA margin increase was driven by the strength of our software and SaaS sales, improved professional services profitability, a $5 million decrease in employment-related, product development spending, and lower bad debt expense from the sale of a customer bankruptcy claim.

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Public Sector & Education segment:

	Three Months Ended March 31,		Year over Year Change	
	2014	2015	Reported	Constant Currency
	(in millions)			
Software	$ 34	$ 34	(1)%	(1)%
SaaS and Cloud	9	9	4%	4%
Professional and Business Processing Services	10	11	4%	4%
Total PS&E Revenue	$ 53	$ 54	1%	1%
Adjusted EBITDA	$ 16	$ 16	(1)%	(1)%
Adjusted EBITDA margin	30.1%	29.5%	(0.6) pts	(0.6) pts

Revenue:

In the first quarter of 2015, PS&E revenue grew 1% principally driven by growth in professional services and accompanied by increases in SaaS and Cloud revenues. During the first quarter of 2015 and 2014, software revenue represented approximately 62% and 64%, respectively, SaaS and Cloud revenue was approximately 18% and 17%, respectively, and Professional and Business Processing Services revenue was approximately 20% and 19%, respectively, of PS&E revenue.

Software revenue decreased 1% primarily due to a decrease of approximately $0.5 million of software license fees, partially offset by annual software maintenance increases. SaaS and Cloud revenue increased 4% primarily due to add-on cloud services to the existing customer base. Professional and Business Processing Services revenue increased 4% due to continuing to deliver the contracted backlog resulting from new software license sales and product upgrades from 2013 and 2014 which generate related implementation and integration services. There is no business processing services revenue in this segment.

Adjusted EBITDA:

PS&E Adjusted EBITDA was $16 million, a decrease of 1% from the first quarter of 2014. On a constant currency basis, PS&E Adjusted EBITDA also decreased 1%. The PS&E Adjusted EBITDA margin was 29.5% and 30.1% for the first quarter of 2015 and 2014, respectively. The 0.6% margin decrease was driven by higher professional services revenue and higher costs associated with the delivery of our professional services.

Corporate:

Corporate spending, as measured on an adjusted EBITDA basis, increased by approximately $5 million to $15 million during the first quarter of 2015 mainly due to higher employee costs resulting from increased medical expenses.

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Non-GAAP Financial Measures:

We evaluate our performance using both GAAP and non-GAAP financial measures. Non-GAAP measures are not based on any comprehensive set of accounting rules or principles and should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP. In addition, SunGard s non-GAAP measures may be different from non-GAAP measures used by other companies.

Our primary non-GAAP measure is Adjusted EBITDA, whose corresponding GAAP measure is net income (loss). Adjusted EBITDA is defined as net income (loss) less income (loss) from discontinued operations, income taxes, loss on extinguishment of debt, interest expense and amortization of deferred financing fees, depreciation (including the amortization of capitalized software), amortization of acquisition-related intangible assets, trade name and goodwill impairment charges, severance and facility closure charges, stock compensation expense, management fees from our Sponsors, and certain other costs.

We believe Adjusted EBITDA is an effective tool to measure our operating performance since it excludes non-cash items and certain variable charges. We use Adjusted EBITDA extensively to measure the financial performance of SunGard and its reportable segments, and also to report our results to our board of directors. We use a similar measure, as defined in our senior secured credit agreement, for purposes of computing our debt covenants.

The following table presents a reconciliation of Adjusted EBITDA, a non-GAAP measure, to net income (loss), which is the nearest comparable GAAP measure.

	(in millions) Three Months Ended March 31,		Year over Year Change	
	2014	2015	Reported	Constant Currency
Net income (loss)	$ (340)	$ 28		
Income (loss) from discontinued operations	17	(2)		
Benefit from (provision for) income taxes	(101)	18		
Loss on extinguishment of debt	61			
Interest expense and amortization of deferred financing fees	74	71		
Operating income (loss)	(289)	115	140%	139%
Depreciation	24	29	17%	21%
Amortization of acquisition-related intangible assets	43	21	(51)%	(51)%
Trade name impairment charge	339		n/a	n/a
Restructuring charges	5	2	(62)%	(41)%
Stock compensation expense	9	10	16%	16%
Management fees	2	2	29%	29%
Other costs (included in operating income)	12	(4)	(129)%	(134)%
Adjusted EBITDA	$ 145	$ 175	21%	20%

Our business is organized into two segments, FS and PS&E. Corporate spending is held above the segments as noted in the table below. Corporate spending includes support functions such as corporate finance, human resources, and

legal. The following table details Adjusted EBITDA for each of our two reportable segments and corporate spending to reconcile to total SunGard Adjusted EBITDA, as reconciled above.

	Adjusted EBITDA Three Months Ended March 31,	
	2014	2015
	(in millions)	
FS	$ 139	$ 174
PS&E	16	16
Corporate	(10)	(15)
Total	$ 145	$ 175

Liquidity and Capital Resources:

At December 31, 2014 and March 31, 2015, our liquidity, a non-GAAP measure was as follows (in millions):

	December 31, 2014	March 31, 2015
Cash and cash equivalents	$ 447	$ 555
Capacity: Revolving Credit Facility	592	593
Capacity: Receivables Facility	39	43
Total Liquidity	$ 1,078	$ 1,191

Total liquidity represents the amount of cash and readily available sources of cash available for debt service and working capital needs. We use total liquidity to ensure we have an adequate amount of funds to meet our obligations.

Included in our total cash and cash equivalents at March 31, 2015 was approximately $261 million held by our wholly-owned non-U.S. subsidiaries that is available to fund operations and strategic investment opportunities abroad. Also, approximately $39 million of cash and cash equivalents at March 31, 2015 relates to our broker/dealer operations, some of which is not readily available for general corporate use.

Our cash flows in the United States continue to be sufficient to fund our current domestic operations and obligations, including financing activities such as debt service. In addition, we have several options available to improve liquidity in the short term in the U.S., including repatriation of funds from foreign subsidiaries, borrowing funds under our revolving credit facilities, and calling intercompany loans that are in place with certain foreign subsidiaries. To the extent we elect to repatriate the earnings of our foreign subsidiaries, additional cash taxes could be payable. See Note 12 of Notes to Consolidated Financial Statements in the Company s 2014 Annual Report on Form 10-K for more detail.

Cash flow from operations:

Cash flow from continuing operations was $154 million for the three months ended March 31, 2015, an increase of $68 million from the prior year period. The increase in 2015 cash flow from continuing operations was due to:

a $49 million increase in cash earned from operations, primarily due to improved operating performance and from a decrease in transaction costs associated with the AS Split-Off in the first quarter of 2014;

a $16 million increase in cash provided by working capital due primarily to the reduction of accounts receivable, and lower incentive payments due to the relatively stronger performance in 2013 compared to 2014, partially offset by more cash used for accounts payable and lower deferred revenue in the first quarter of 2015 compared to the first quarter of 2014; and

$5 million less interest payments, partially offset by

$2 million more income tax payments, net of refunds.

Cash flow from investing activities:

Net cash used by continuing operations in investing activities was $32 million in the three months ended March 31, 2015, comprised mainly of $28 million of cash paid for property and equipment and capitalized software development. This compares to $28 million in the three months ended March 31, 2014, comprised mainly of cash paid for property and equipment and capitalized software development costs. Capitalized software development costs related to our product investments increased $2 million in the first quarter of 2015 to $15 million from the prior year period. In addition, we acquired a business in our FS segment for approximately $4 million.

Cash flow from financing activities:

Net cash used by continuing operations in financing activities was $4 million for the three months ended March 31, 2015, primarily related to payments of employee taxes from the net distribution of share-based awards to employees. Net cash used by continuing operations in financing activities was $1,338 million for the three months ended March 31, 2014, primarily related to repayment of $1,005 million of term loans as part of the AS Split-Off, repayment of our $250 million senior secured notes due 2014 and $60 million of our receivables facility term loan, and repayment of $7 million of our tranche A term loan.

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Total debt outstanding as of December 31, 2014 and March 31, 2015 consisted of the following (in millions):

	December 31, 2014	March 31, 2015	Change from December 31 to March 31
Senior Secured Credit Facilities:			
Secured revolving credit facility due March 8, 2018	$	$	$
Tranche C due February 28, 2017, effective interest rate of 4.44% and 4.44%	400	400	
Tranche E due March 8, 2020, effective interest rate of 4.31% and 4.31%	1,918	1,918	
Total Senior Secured Credit Facilities	2,318	2,318	
Senior Notes due 2018 at 7.375%	511	511	
Senior Notes due 2020 at 7.625%	700	700	
Senior Subordinated Notes due 2019 at 6.625%	1,000	1,000	
Secured accounts receivable facility, at 3.16% and 3.18%	140	140	
Other, primarily acquisition purchase price		1	1
Total debt	$ 4,669	$ 4,670	$ 1
Leverage Metric per Credit Agreement	5.41x	5.04x	-0.37x
Weighted Average Interest Rate	5.61%	5.62%	0.01 points
Percent Fixed Rate (swap adjusted)	67%	67%	0 points
Percent Bonds of Total Debt	47%	47%	0 points

At December 31, 2014 and March 31, 2015, the contractual future maturities of debt were as follows (in millions):

	December 31, 2014	March 31, 2015	Change from December 31 to March 31
2015	$	$ 1	$ 1
2016			
2017	400	400	
2018	511	511	
2019	1,140	1,140	
Thereafter	2,618	2,618	
Total	$ 4,669	$ 4,670	$ 1

At March 31, 2015, contingent purchase price obligations that depend upon the operating performance of certain acquired businesses were a potential of $6 million, of which less than $0.5 million is included in other long-term liabilities. We also have outstanding letters of credit and bid bonds that total approximately $17 million.

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

SunGard s ability to make dividend payments to its equity holders is governed by the covenants in its debt documents. Without obtaining an amendment to those documents, SunGard s covenants currently limit such a dividend to a total of $200 million.

Covenant Compliance

As of March 31, 2015, we are in compliance with all financial and nonfinancial covenants. In connection with the March 2013 senior secured credit agreement amendment, as further amended in February 2014, we removed the financial maintenance covenants for the term loan facility and modified the financial maintenance covenants for the senior secured revolving credit facility. As amended, the financial maintenance covenant is applicable at quarter end only if there is an amount outstanding under the revolving credit facility that is greater than or equal to 25% of the total revolving commitments (see footnote 1 below for further details). If applicable, starting with the quarter ended March 31, 2015, the financial maintenance covenant allows a maximum total leverage ratio of 6.00x at the end of such quarter through December 31, 2015 and 5.75x thereafter.

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If the financial maintenance covenant in the revolving credit facility were to apply and we failed to satisfy such covenant, then a default solely of the revolving credit facility would occur. If the revolving credit lenders fail to waive such default, then the revolving credit lenders could elect (upon a determination by a majority of the revolving credit lenders) to terminate their commitments and declare all amounts borrowed under the revolving credit facility due and payable. If this happens, all amounts borrowed under the senior secured term loan facilities would be due and payable as well. This acceleration would also result in a default under the indentures.

Under the indentures governing SunGard s senior notes due 2018 and 2020 and senior subordinated notes due 2019 and SunGard s senior secured credit agreement, our ability to incur additional indebtedness, make investments and pay dividends remains tied to a leverage or fixed charge ratio based on Adjusted EBITDA. Adjusted EBITDA is defined as EBITDA, which we define as earnings before interest, taxes, depreciation and amortization, further adjusted to exclude certain adjustments permitted in calculating covenant compliance under the indentures and senior secured credit facilities. Adjusted EBITDA is a non-GAAP measure used to determine our compliance with certain covenants contained in the indentures governing the senior notes due 2018 and 2020 and senior subordinated notes due 2019 and in our senior secured credit agreement. We believe that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA are appropriate to provide additional information to investors to demonstrate compliance with the financing covenants.

Adjusted EBITDA does not represent net income (loss) or cash flow from operations as those terms are defined by GAAP and does not necessarily indicate whether cash flows will be sufficient to fund cash needs. While Adjusted EBITDA and similar measures are frequently used as measures of operations and the ability to meet debt service requirements, these terms are not necessarily comparable to other similarly titled captions of other companies due to the potential inconsistencies in the method of calculation. Adjusted EBITDA does not reflect the impact of earnings or charges resulting from matters that we may consider not to be indicative of our ongoing operations. In particular, the definition of Adjusted EBITDA in the indentures allows us to add back certain noncash, extraordinary or unusual charges that are deducted in calculating net income (loss). However, these are expenses that may recur, vary greatly and are difficult to predict. Further, our debt instruments require that Adjusted EBITDA be calculated for the most recent four fiscal quarters. As a result, the measure can be disproportionately affected by a particularly strong or weak quarter. Further, it may not be comparable to the measure for any subsequent four-quarter period or any complete fiscal year. Adjusted EBITDA is similar, but not identical, to Adjusted EBITDA used to measure our performance (see Note 10 of Notes to Condensed Consolidated Financial Statements for the three months ended March 31, 2015).

The following is a reconciliation for SunGard of income (loss) from continuing operations, which is a GAAP measure of our operating results, to Adjusted EBITDA as defined in our debt agreements (in millions). This is similar, but not identical, to Adjusted EBITDA used for segment reporting as disclosed earlier. The terms and related calculations are defined in the credit agreement. Adjusted EBITDA is calculated as follows (in millions):

	Three Months Ended March 31,		Last Twelve Months Ended March 31,
	2014	2015	2015
Income (loss) from continuing operations	$ (323)	$ 26	$ 142
Interest expense, net	74	71	287
Provision for (benefit from) income taxes	(101)	18	62
Depreciation	24	29	112
Amortization of acquisition-related intangible assets	43	21	114

EBITDA	(283)	165	717
Trade name impairment charge	339		
Purchase accounting adjustments [(a)]			1
Stock compensation expense	9	10	43
Restructuring charges [(b)]	5	2	24
Management fees	2	2	9
Other costs [(c)]	11		5
Loss on extinguishment of debt [(d)]	61		
Adjusted EBITDA senior secured credit facilities, senior notes due 2018 and 2020 and senior subordinated notes due 2019	$ 144	$ 179	$ 799

(a) Purchase accounting adjustments include the adjustment of deferred revenue and lease reserves to fair value at the date of the LBO and subsequent acquisitions made by the Company.

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(b) Restructuring charges include severance and related payroll taxes, and reserves to consolidate or exit certain facilities.

(c) Other costs includes strategic initiative expenses, certain other expenses associated with acquisitions made by the Company, franchise and similar taxes reported in operating expenses and loss on the sale of assets, partially offset by certain charges relating to the receivables facility.

(d) Loss on extinguishment of debt for the three months ended March 31, 2014 primarily includes (i) a $36 million loss associated with the exchange of SpinCo Notes for SunGard Notes and (ii) the write-off of deferred financing fees associated with (a) the repayment of $1.005 billion of term loans and the retirement of $389 million of senior notes due 2018, both resulting from the AS Split-Off, (b) the $250 million reduction of the revolving credit facility and (c) the repayment of $60 million of the accounts receivable facility term loans.

The covenant requirements and actual ratios for the twelve months ended March 31, 2015 are as follows:

	Covenant Requirements	Actual Ratios
Senior secured credit facilities [(1)]		
Maximum total debt to Adjusted EBITDA	6.00x	5.04x
Senior notes due 2018 and 2020 and senior subordinated notes due 2015 [(2)]		
Minimum Adjusted EBITDA to fixed charges ratio required to incur additional debt pursuant to ratio provisions	2.00x	3.02x

(1) If on the last day of any four consecutive fiscal quarters ending on or before December 31, 2015, but after December 31, 2014, our total revolving credit exposure minus the lesser of (x) the amount of outstanding letters of credit under the senior secured revolving credit facility and (y) $25 million, is equal to or greater than an amount equal to 25% of our aggregate revolving credit commitments, then on such day, we would be required to maintain a maximum consolidated total debt to Adjusted EBITDA ratio of 6.00x which steps down to 5.75x after December 31, 2015. Consolidated total debt is defined in the senior secured credit facilities as total debt less (i) certain indebtedness and (ii) cash and cash equivalents on our balance sheet in excess of $50 million. Failure to satisfy this ratio requirement would constitute a default solely under the senior secured revolving credit facility. If our revolving credit facility lenders failed to waive any such default and subsequently accelerated our obligations or terminated their commitments under the senior secured revolving credit facility, our repayment obligations under the senior secured term loan facilities would be accelerated as well, which would also constitute a default under our indentures.

(2) SunGard s ability to incur additional debt and make certain restricted payments under our indentures, subject to specified exceptions, is tied to an Adjusted EBITDA to fixed charges ratio of at least 2.0x, except that we may incur certain debt and make certain restricted payments and certain permitted investments without regard to the ratio, such as the ability to incur up to an aggregate principal amount of $5.75 billion under credit facilities (inclusive of amounts outstanding under the senior credit facilities from time to time; as of March 31, 2015, we had $2.32 billion outstanding under the term loan facilities and available commitments of $593 million under the revolving credit facility), to acquire persons engaged in a similar business that become restricted subsidiaries and to make other investments equal to 6% of our consolidated assets. Fixed charges is defined in the indentures governing the Senior Notes due 2018 and 2020 and the Senior Subordinated Notes due 2019 as consolidated interest expense less interest income, adjusted for acquisitions, and further adjusted for non-cash interest and the elimination of interest expense and fees associated with the receivables facility.

Certain Risks and Uncertainties

Certain of the matters we discuss in this Report 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, estimates, or anticipates or similar expressions which concern our strategy, plans intentions. All statements we make relating to estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results are forward- looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. All of these forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those we expected. We derive most of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. Some of the factors that we believe could affect our results include: global economic and market conditions; the condition of the financial services industry, including the effect of any further consolidation among financial services firms; our high degree of debt-related leverage; the effect of war, terrorism, natural disasters or other catastrophic events; the effect of disruptions to our systems and infrastructure; the timing and magnitude of software sales; the timing and scope of technological advances; the market and credit risks associated with broker/dealer operations; the ability to retain and attract customers and key personnel; risks relating to the foreign countries where we transact business; the integration and performance of acquired businesses; 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; a material weakness in our

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internal controls; unanticipated changes in our income tax provision or the enactment of new tax legislation, issuance of regulations or relevant judicial decisions and if the split-off of the AS business fails to qualify as a tax-free transaction, there could be a significant tax liability, and Spinco may be unable to fully indemnify us to the extent its or its stockholders actions caused the split-off to be taxable. The factors described in this paragraph and other factors that may affect our business or future financial results are discussed in our filings with the Securities and Exchange Commission, including this Form 10-Q. We assume no obligation to update any written or oral forward-looking statement made by us or on our behalf as a result of new information, future events or other factors.

Item 3. Quantitative and Qualitative Disclosures about Market Risk:

We do not use derivative financial instruments for trading or speculative purposes. We have invested our available cash in short- term, highly liquid financial instruments, with a substantial portion having initial maturities of three months or less. When necessary, we have borrowed to fund acquisitions.

At March 31, 2015, we had total debt of $4.67 billion, including $2.46 billion of variable rate debt. We have entered into interest rate swap agreements which fix the interest rates for $900 million of our variable rate debt. Swap agreements expiring in February 2017 with a notional value of $400 million effectively fix our interest rates at 0.69%. Swap agreements expiring in June 2019 with a notional value of $200 million effectively fix our interest rates at 2.06%. Swap agreements expiring in March 2020 with a notional value of $300 million effectively fix our interest rates at 2.27%. Our remaining variable rate debt of $1.56 billion is subject to changes in underlying interest rates, and, accordingly, our interest payments will fluctuate. During the period when all of our interest rate swap agreements are effective, a 1% change in interest rates would result in a change in interest of approximately $16 million per year. Upon the expiration of the $400 million interest rate swap agreements in February 2017, a 1% change in interest rates would result in an incremental change in interest of approximately $4 million, or a total of $20 million. Upon the expiration of the $200 million interest rate swap agreements in June 2019, a 1% change in interest rates would result in an incremental change in interest of approximately $2 million, or a total of $22 million. Upon the expiration of the $300 million interest rate swap agreements in March 2020, a 1% change in interest rates would result in an incremental change in interest of approximately $3 million, or a total of $25 million.

Item 4. Controls and Procedures:

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Report. Based on that evaluation, the chief executive officer and chief financial officer concluded that our disclosure controls and procedures as of the end of the period covered by this Report were effective.

No change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information:

Item 1. 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 1A. Risk Factors: There have been no material changes to SCC s, SCCII s or SunGard s Risk Factors as previously disclosed in their Form 10-K for the year ended December 31, 2014.

Item 5. Other Information:

Disclosure of Iranian Activities under Section 13(r) of the Securities Exchange Act of 1934

Because of the broad definition of affiliate in Rule 12b-2 of the Securities Exchange Act of 1934, certain of our Sponsors and the companies in which their affiliated funds are invested (portfolio companies) may be deemed to be affiliates of ours. Accordingly, we note that affiliates of one of our Sponsors, The Blackstone Group L.P., has included information in its Quarterly Report on Form 10-Q, as required by Section 13(r) of the Exchange Act, regarding activities of its portfolio companies. These disclosures are reproduced on Exhibit 99.1 of this report, which disclosures are hereby incorporated by reference herein. We have no involvement in or control over such activities, and we have not independently verified or participated in the preparation of the disclosures described in that filing. To the extent any of our Sponsors make additional disclosures under Section 13(r), we will provide updates in our subsequent periodic filings.

Item 6. Exhibits:

Number	Document
12.1	Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of Russell P. Fradin, Chief Executive Officer of SunGard Capital Corp., SunGard Capital Corp. II and SunGard Data Systems Inc. required by Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Charles J. Neral, Chief Financial Officer of SunGard Capital Corp., SunGard Capital Corp. II and SunGard Data Systems Inc. required by Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Russell P. Fradin, Chief Executive Officer of SunGard Capital Corp., SunGard Capital Corp. II and SunGard Data Systems Inc. required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.
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99.1	Section 13(r) Disclosure of Certain Sponsors
101	Interactive Data Files for SunGard Capital Corp., SunGard Capital Corp. II and SunGard Data Systems Inc. pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of

December 31, 2014 and March 31, 2015, (ii) Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2014 and 2015, (iii) Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2015 and (iv) Notes to Condensed Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SUNGARD CAPITAL CORP.

SUNGARD CAPITAL CORP.II

SUNGARD DATA SYSTEMS INC.

Dated: May 14, 2015

By: /s/ Charles J. Neral
Charles J. Neral
Senior Vice President-Finance and Chief Financial Officer (Principal Financial Officer)

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