PALATIN TECHNOLOGIES INC
Form 10-K
September 28, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2009

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-15543

_____

PALATIN TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	**95-4078884**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4C Cedar Brook Drive **Cranbury, New Jersey**	**08512**
(Address of principal executive offices)	(Zip Code)

(609) 495-2200
(Registrant's telephone number, including area code)

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $.01 per share	NYSE Amex

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

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 x No o

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 o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

x

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. (Check one):

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

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

Yes o No x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter (December 31, 2008): $8,643,861.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date (September 25, 2009): 96,155,249.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 are incorporated into Part I of this Form 10-K.

PALATIN TECHNOLOGIES, INC.
TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Business.

Forward-looking statements

Statements in this Annual Report on Form 10-K (this Annual Report), as well as oral statements that may be made by us or by our officers, directors, or employees acting on our behalf, that are not historical facts constitute forward-looking statements, which are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934 (the Exchange Act). The forward-looking statements in this Annual Report do not constitute guarantees of future performance. Investors are cautioned that statements which are not strictly historical statements contained in this Annual Report, including, without limitation, current or future financial performance, management s plans and objectives for future operations, clinical trials and results, product plans and performance, management s assessment of market factors, as well as statements regarding our strategy and plans and our strategic partners, constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause our actual results to be materially different from our historical results or from any results expressed or implied by such forward-looking statements. Our future operating results are subject to risks and uncertainties and are dependent upon many factors, including, without limitation, the risks identified under the caption Risk Factors and elsewhere in this Annual Report, as well as in our other Securities and Exchange Commission (SEC) filings.

In this Annual Report, references to we, our, us or Palatin means Palatin Technologies, Inc.

Overview

We are a biopharmaceutical company dedicated to the development of peptide, peptide mimetic and small molecule agonist compounds with a focus on melanocortin and natriuretic peptide receptor systems. We have a diverse pipeline of active development programs targeting melanocortin and natriuretic receptors, including development of proposed products for treatment of heart failure, sexual dysfunction, obesity, diabetes and metabolic syndrome.

We currently have the following active drug development programs:

- Bremelanotide, a peptide melanocortin receptor agonist, for treatment of sexual dysfunction, targeting female sexual dysfunction (FSD) and erectile dysfunction (ED) in patients non-responsive to current therapies.
- PL-6983, a peptide melanocortin receptor agonist, for treatment of sexual dysfunction.
- PL-3994, a peptide mimetic natriuretic peptide receptor A (NPRA) agonist, for treatment of heart failure (HF).
- Melanocortin receptor-based compounds for treatment of obesity, diabetes and related metabolic syndrome pursuant to an ongoing research collaboration and global license with AstraZeneca AB (AstraZeneca).

Key elements of our business strategy include: using our technology and expertise to develop and commercialize therapeutic products; entering into alliances and partnerships with pharmaceutical companies to facilitate the development, manufacture, marketing, sale and distribution of product candidates we are developing; partially funding our development and discovery programs with the cash flow from our AstraZeneca collaboration agreement and any future agreements with other companies; and, depending on the availability of sufficient funding, expanding our pipeline by using our expertise in drug discovery technologies for melanocortin and natriuretic peptide receptor systems and acquiring synergistic products and technologies.

We incorporated in Delaware in 1986 and commenced operations in the biopharmaceutical area in 1996. Our corporate offices and research and development facility are located at 4C Cedar Brook Drive, Cranbury, New Jersey 08512 and our telephone number is (609) 495-2200. We maintain an Internet site at http://www.palatin.com, where among other things, we make available free of charge on and through this website our Forms 3, 4 and 5, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) and Section 16 of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our website and the information contained in it or connected to it shall not be deemed to be incorporated into this Annual Report.

Table of Contents

Melanocortin Receptor-Specific Programs

The melanocortin system is involved in a large and diverse number of physiologic functions, and therapeutic agents modulating this system may have the potential to treat a variety of conditions and diseases, including sexual dysfunction, obesity and related disorders, ischemia reperfusion injury (injury resulting from inadequate blood flow or reintroduction of blood flow), hemorrhagic shock and inflammation-related diseases.

Bremelanotide for Sexual Dysfunction. We are developing subcutaneously administered bremelanotide for the treatment of ED and FSD. Bremelanotide, a melanocortin agonist (which promotes a biologic function response) drug candidate, is a synthetic peptide analog of the naturally occurring hormone alpha-MSH (melanocyte-stimulating hormone).

Medical Need ED and FSD. ED is the consistent inability to attain and maintain an erection sufficient for sexual intercourse. The condition is correlated with increasing age, cardiovascular disease, hypertension, diabetes, hyperlipidemia and smoking. In addition, certain prescription drugs and psychogenetic issues may contribute to ED. According to the Massachusetts Male Aging Study, more than 50% of men aged 40-70 report episodes of ED and more than 30 million men in the United States may be afflicted with some form of ED, with less than 20% seeking treatment. The incidence of ED increases with age. Studies show that chronic ED affects about 5% of men in their 40s and 15% to 25% of men by the age of 65. The current market size for ED is more than $2.5 billion per year.

Phosphodiesterase-5 (PDE-5) inhibitors such as sildenafil (Viagra®), vardenafil (Levitra®) and tadalafil (Cialis®) are used to treat ED, but an estimated 35% of ED patients are non-responsive to PDE-5 inhibitor therapy. There are limited therapeutic options for ED patients non-responsive to PDE-5 inhibitor therapy, including alprostadil for direct penis injection or urethral suppositories, surgical penile implants and various devices.

FSD is a multifactorial condition that has anatomical, physiological, medical, psychological and social components. Studies estimate FSD is prevalent in approximately 50% of women over the age of 30 and that more than 35 million women in the United States may be afflicted with some form of FSD. FSD includes disorders associated with desire, arousal, orgasm and pain.

There are no drugs in the United States approved for FSD indications.

Mechanisms of Action with Bremelanotide. Bremelanotide is believed to act through activation of melanocortin receptors in the central nervous system, which is a different mechanism of action from currently marketed PDE-5 inhibitor ED therapies that act directly on the vascular system. Studies have demonstrated efficacy with bremelanotide in patients non-responsive to PDE-5 inhibitor therapies. Studies have also demonstrated an additive effect in patients co-administered both bremelanotide and a PDE-5 inhibitor.

Clinical Trials with Intranasal Formulations. We extensively studied bremelanotide for sexual dysfunction in nasal formulations, administered as a single spray in one nostril. Increases in blood pressure were observed in some patients receiving nasally administered bremelanotide, and this observed increase was a significant factor leading us to discontinue work on nasally administered bremelanotide as a first-line therapy for sexual dysfunction. We believe that increases in blood pressure, as well as the rate of nausea and emesis (vomiting), were due, at least partially, to variability in drug uptake with nasal administration. Studies showed significant variation in plasma levels of bremelanotide in patients receiving nasally administered bremelanotide.

While we are no longer developing intranasal formulations of bremelanotide for commercialization, trials with intranasal formulations of bremelanotide did demonstrate potential utility of bremelanotide. Phase 2B double blind, placebo-controlled, parallel doses clinical trials evaluating nasal bremelanotide for ED, conducted in 726 non-diabetic and 294 diabetic patients, showed that over 30% of ED patients were restored to a normal level of function. Phase 2A clinical trials of post-menopausal FSD patients showed a statistically significant increase in the level of sexual desire and genital arousal in subjects receiving bremelanotide compared to subjects receiving placebo and, in pre-menopausal FSD patents, a trend to increases in the level of sexual desire and genital arousal in subjects receiving bremelanotide compared to subjects receiving placebo. In trials conducted to date, almost 2,000 patients received at least one dose of bremelanotide, with about 1,500 receiving multiple doses.

Subcutaneous Administration of Bremelanotide. In a recently completed Phase 1 clinical trial designed to evaluate the blood pressure effects of subcutaneously administered bremelanotide, no statistically significant difference in mean changes in blood pressure was seen in subjects receiving bremelanotide compared to placebo. No subject discontinued participation in the study as a result of protocol stopping rules

based on blood pressure changes. In addition, there was no difference in the incidence of emesis in subjects receiving bremelanotide compared to placebo. This Phase 1 trial was a two-week, randomized, double-blind, placebo-controlled study in subjects who received 45 repeat doses of bremelanotide or placebo subcutaneously. Each administered dose of

Table of Contents

bremelanotide achieved plasma levels shown to be efficacious for improving erectile function in multiple previous Phase 1 and Phase 2 erectile dysfunction studies.

With subcutaneous administration of bremelanotide variability in plasma exposure was significantly decreased. This study supports the hypothesis that increases in blood pressure seen with nasally administered bremelanotide were due, at least partially, to variability in drug uptake, with increases in blood pressure in patients with greater uptake. With subcutaneous administration of bremelanotide, variability in plasma exposure is controlled.

We have met with the U.S. Food and Drug Administration (FDA) to discuss data from our recently completed Phase 1 bremelanotide study supporting the switch to subcutaneous administration and our development program for subcutaneously administered bremelanotide in ED patients non-responsive to PDE-5 inhibitors. Our clinical program is commencing this year, and is planned, depending on program results, concurrence of the FDA and the availability of sufficient funding, to lead to initiation of at-home Phase 2 clinical studies in the first half of calendar 2010.

We are exploring various delivery devices for subcutaneous administration of bremelanotide. Injection sites for subcutaneous injection include the abdomen, thigh and upper arms. We believe that fine needle devices, pen injectors and needle-free injector systems can be used for subcutaneous administration of bremelanotide, and we are evaluating various delivery devices for potential commercialization. If Phase 2 clinical trials are successful, we anticipate that Phase 3 clinical trials will be conducted with a delivery device intended for commercialization.

PL-6983 for Treatment of Sexual Dysfunction. PL-6983 is our lead compound in a new series of melanocortin receptor-specific peptides we have developed. We have demonstrated efficacy of PL-6983 in inducing erections in animal models and in inducing sexual behavior in an animal model of FSD.

In developing PL-6983, we used a novel screening platform that examined the effectiveness of peptides in animal models of sexual response and also determined cardiovascular effects, primarily looking at changes in blood pressure. In these animal models, PL-6983 resulted in significantly smaller increases in blood pressure at doses effective for a sexual response than blood pressure increases in the same models seen with bremelanotide.

We are planning preclinical toxicology and other studies required by the FDA prior to initiating human clinical trials. Initial human clinical trials will be designed to measure safety parameters, including changes in blood pressure following administration.

Obesity. In 2007, we entered into an exclusive global licensing and research collaboration agreement with AstraZeneca to discover, develop and commercialize compounds that target melanocortin receptors for the treatment of obesity, diabetes and related metabolic syndrome. In June and December 2008, the collaboration agreement was amended to include additional compounds and associated intellectual property we developed. On September 24, 2009, the collaboration agreement was amended to provide additional payments to us totaling $5 million and to modify terms of the agreement.

Obesity is a multifactorial condition with significant biochemical components relating to satiety (feeling full), energy utilization and homeostasis. A number of different metabolic and hormonal pathways are being evaluated by companies around the world in efforts to develop better treatments for obesity. Scientific research has established that melanocortin receptors have a role in eating behavior and energy homeostasis, and that some melanocortin receptor agonists decrease food intake and induce weight loss.

Obesity is a significant healthcare issue, often correlated with a variety of cardiovascular and other diseases, including diabetes. More than 1.1 billion adults and over 150 million children worldwide are overweight, with over 300 million adults categorized as obese. According to the American Obesity Association, obesity is the second leading cause of preventable death after smoking and nearly one-third of adults in the United States are obese. Increased mortality, high blood pressure, diabetes and other substantial health risks are associated with being overweight and obese. Over 2.6 million deaths are attributed to diabetes each year worldwide and almost $120 billion is spent on related costs of obesity, according to the U.S. Surgeon General.

We have developed classes of small molecule and peptide compounds targeting melanocortin receptors which are effective in the treatment of obesity in animal models. Certain of these compounds have been demonstrated to be effective in normal diet-induced obese and genetically obese animal models for decreasing food intake and body weight, without an increase in sexual response in normal animals at the same or higher dose levels. During 2009, pursuant to an agreement with AstraZeneca we conducted a proof-of-principle clinical study on the effects of a melanocortin receptor-specific compound on food intake, obesity and other metabolic parameters.

Table of Contents

Pursuant to the terms of the agreement with AstraZeneca, we received up-front payments totaling $10.0 million. Effective with the September 2009 amendment, we are eligible for milestone payments totaling up to $145.2 million, with up to $85.2 million contingent upon development and regulatory milestones and the balance on achievement of sales targets, plus royalties on sales of approved products. AstraZeneca has responsibility for product commercialization, product discovery and development costs. We are providing certain scientific expertise in the research collaboration at a negotiated rate through January 2010, and agreed in the September 2009 amendment to conduct additional clinical studies.

Other Melanocortin Programs. We have early stage research and discovery programs exploring additional indications and targets. These programs include development of highly-selective melanocortin-1 and melanocortin-3 receptor agonists for treatment of inflammation-related diseases and disorders, melanocortin-4 receptor antagonists for treatment of cachexia and melanocortin-4 receptor agonists for prevention of organ damage, particularly kidney damage. We do not anticipate that any of these programs will advance to clinical trials during the next twelve months.

Natriuretic Peptide Receptor-Specific Programs

The natriuretic peptide receptor system has numerous cardiovascular functions, and therapeutic agents modulating this system may be useful in treatment of heart failure, hypertension and other cardiovascular diseases.

PL-3994 for Heart Failure Indications. PL-3994 is an NPRA agonist compound in development for treatment of HF. Heart failure is an illness in which the heart is unable to pump blood efficiently, and includes acutely decompensated HF with dyspnea (shortness of breath) at rest or with minimal activity. Endogenous (naturally produced) natriuretic peptides have a number of beneficial effects, including vasodilation (relaxation of blood vessels), natriuresis (excretion of sodium), and diuresis (excretion of fluids).

Patients who have been admitted to the hospital with an episode of worsening HF have an increased risk of either death or hospital readmission in the three months following discharge. Up to 15% of patients die in this period and as many as 30% need to be readmitted to the hospital. We believe that decreasing mortality and hospital readmission in patients discharged following hospitalization for worsening HF is a large unmet medical need for which PL-3994 may be effective. PL-3994 would be utilized as an adjunct to existing HF medications, and may, if successfully developed, be self-administered by patients as a subcutaneous injection following hospital discharge.

Medical Need in Heart Failure. Over 5.7 million Americans suffer from HF, with 670,000 new cases of HF diagnosed each year, with disease incidence expected to increase with the aging of the American population. Despite the treatment of HF with multiple drugs, almost all HF patients will experience at least one episode of acute HF that requires treatment with intravenous medications in the hospital. Heart failure has tremendous human and financial costs. Estimated direct costs in the U.S. for HF are $37.2 billion in 2009, with HF constituting the leading cause of hospitalization in people over 65 years of age, with over 1.1 million hospital discharges for HF in 2006. Heart failure is also a high mortality disease, with approximately one-half of HF patients dying within five years of initial diagnosis.

Mechanisms of Action with PL-3994. PL-3994 activates NPRA, a receptor known to play a role in cardiovascular homeostasis. We believe that PL-3994, through activation of NPRA, will reduce cardiac hypertrophy, which is an independent risk factor for cardiovascular morbidity and mortality. PL-3994 increases plasma cyclic guanosine monophosphate (cGMP) levels, a pharmacological response consistent with the effects of endogenous natriuretic peptides on cardiovascular function. PL-3994 also decreases activity of the renin-angiotensin-aldosterone system (RAAS), a hormone system that regulates blood pressure and fluid balance. The RAAS system is frequently over-activated in HF patients, leading to worsening of cardiovascular function.

PL-3994 is one of a number of natriuretic peptide receptor agonist compounds we have developed. PL-3994 is a synthetic molecule incorporating a novel and proprietary amino acid mimetic structure. It has an extended half-life, with reduced affinity for endogenous natriuretic peptide clearance receptors and significantly increased resistance to neutral endopeptidase, an endogenous enzyme that degrades natriuretic peptides.

Clinical Studies with PL-3994. Preclinical studies in animals established a dose-dependent effect on blood pressure and diuresis, and in animal models of HF showed improved kidney function and prevention of cardiac hypertrophy (increase in heart size due to disease). Safety toxicology studies were conducted in animals prior to filing an Investigational New Drug (IND) application with the FDA.

Human clinical studies of PL-3994 commenced with a Phase 1 trial which concluded in the first quarter of calendar year 2008. This was a randomized, double-blind, placebo-controlled, study in 26 healthy volunteers who received either PL-3994 or a placebo subcutaneously. The evaluations included safety, tolerability, pharmacokinetics and several pharmacodynamic endpoints, including levels of cGMP, a natural messenger

Table of Contents

nucleotide. Dosing concluded with the successful achievement of the primary endpoint of the study, a prespecified reduction in systemic blood pressure. No volunteer experienced a serious or severe adverse event. Elevations in plasma cGMP levels, increased diuresis and increased natriuresis were all observed for several hours after single subcutaneous doses.

In the second quarter of calendar year 2008, we conducted a Phase 2A trial in volunteers with controlled hypertension who were receiving one or more conventional antihypertensive medications. In this trial, which was a randomized, double-blind, placebo-controlled, single ascending dose study in 21 volunteers, the objective was to demonstrate that PL-3994 can be given safely to patients taking antihypertensive medications commonly used in HF and hypertension patients. Dosing concluded with the successful achievement of the primary endpoint of the study, a prespecified reduction in systemic blood pressure. No volunteer experienced a serious or severe adverse event. Elevations in plasma cGMP levels were observed for several hours after single subcutaneous doses.

We have planned a repeat dose Phase 2B clinical trial in patients hospitalized with HF, which will evaluate safety profiles in patients given repeat doses of PL-3994 as well as pharmacokinetic and pharmacodynamic endpoints. This trial is projected to commence, depending on sufficient funding, during the first half of calendar year 2010.

PL-3994 is being developed as a subcutaneously administered drug, and is well absorbed through this route of administration. In human studies, the pharmacokinetic (period to metabolize or excrete the drug) and pharmacodynamic (period of action or effect of the drug) half-lives were on the order of hours, significantly longer than the comparable half-lives of endogenous natriuretic peptides. We believe that PL-3994, if successful, will be amenable to self-administration by patients, similar to insulin and other self-administered drugs.

Other Natriuretic Peptide Receptor-Specific Programs. We have early stage discovery and development programs in the natriuretic peptide receptor field, including compounds with varied pharmacology, including compounds with increased diuretic effect and decreased effect on blood pressure, and compounds effective at more than one natriuretic peptide receptor.

Other Programs

We previously marketed NeutroSpec®, a radiolabeled monoclonal antibody product for imaging and diagnosing infection, which is the subject of a strategic collaboration agreement with the Mallinckrodt division of Covidien Ltd. In 2005, we suspended marketing, clinical trials and securing regulatory approvals of NeutroSpec, and do not anticipate conducting any substantive work or incurring substantial expenditures on NeutroSpec over the next twelve months.

Technologies We Use

We use a rational drug design approach to discover and develop proprietary peptide, peptide mimetic and small molecule agonist compounds, focusing on melanocortin and natriuretic peptide receptor systems. Computer-aided drug design models of receptors are optimized based on experimental results obtained with peptides and small molecules we develop, supported by conformational analyses of peptides in solution utilizing nuclear magnetic resonance spectroscopy. By integrating both technologies, we believe we are developing an advanced understanding of the factors which drive agonism.

We have developed a series of proprietary technologies used in our drug development programs. One technology employs novel amino acid mimetics in place of selected amino acids. These mimetics provide the receptor-binding functions of conventional amino acids, while providing structural, functional and physiochemical advantages. The amino acid mimetic technology is employed in PL-3994, our compound in

development for treatment of HF.

We maintain expertise in both peptide and small molecule chemistries, and have developed a series of drug selection technologies for selecting compounds with desired pharmacological profiles, particularly in the melanocortin receptor field. The drug selection technologies are used to develop and select melanocortin receptor-specific small molecules and peptides with novel properties, including compounds that are effective in the treatment of obesity in animal models but which induce a limited or no sexual response.

Some compound series have been derived using our proprietary and patented platform technology, called MIDAS (Metal Ion-induced Distinctive Array of Structures). This technology employs metal ions to fix the three-dimensional configuration of peptides, forming conformationally rigid molecules that remain folded specifically in their active state. These MIDAS molecules are generally simple to synthesize, are chemically and proteolytically stable, and have the potential to be orally bioavailable. In addition, MIDAS molecules are information-rich and provide data on structure-activity relationships that may be used to design small molecule, non-peptide drugs.

Table of Contents

Estimate of Amount Spent on Research and Development Activities

Research and development expenses were $13.4 million for the fiscal year ended June 30, 2009 (fiscal 2009) and $21.2 million for the fiscal year ended June 30, 2008 (fiscal 2008). In fiscal 2009, $4.7 million of the foregoing was borne by AstraZeneca pursuant to the collaboration agreement, and in fiscal 2008, $2.5 million of the

foregoing was borne by AstraZeneca and other pharmaceutical companies pursuant to collaboration or license agreements.

Competition

Our products under development will compete on the basis of quality, performance, cost effectiveness and application suitability with numerous established products and technologies. We have many competitors, including pharmaceutical, biopharmaceutical and biotechnology companies. Furthermore, there are several well-established products in our target markets that we will have to compete against. Products using new technologies which may be competitive with our proposed products may also be introduced by others. Most of the companies selling or developing competitive products have financial, technological, manufacturing and distribution resources significantly greater than ours and may represent significant competition for us.

The pharmaceutical and biotechnology industry is characterized by extensive research efforts and rapid technological change. Many biopharmaceutical companies have developed or are working to develop products similar to ours or that address the same markets. Such companies may succeed in developing technologies and products that are more effective or less costly than any of those that we may develop. Such companies may be more successful than us in developing, manufacturing and marketing products.

We cannot guarantee that we will be able to compete successfully in the future or that developments by others will not render our proposed products under development or our future product candidates obsolete or non-competitive or that our collaborators or customers will not choose to use competing technologies or products.

Bremelanotide and PL-6983 for Treatment of Sexual Dysfunction. There is competition and financial incentive to develop, market and sell drugs for the treatment of ED and FSD. Leading drugs approved for ED indications are PDE-5 inhibitors which target the vascular system, such as sildenafil (sold under the trade name Viagra®), vardenafil (sold under the trade name Levitra®) and tadalafil (sold under the trade name Cialis®). In addition, we are aware of other PDE-5 inhibitors under development. Other drugs approved for ED indications include alprostadil for injection (sold under the trade name Caverject Impulse®), which is injected directly into the penis, and alprostadil in urethral suppository format (sold under the trade name MUSE®). In addition, a variety of devices, including vacuum devices and surgical penile implants, have been approved for ED indications. We are aware of a number of companies developing new drugs for ED indications, some of which are in clinical trials in the United States and elsewhere. We are not aware of any company actively developing a melanocortin receptor-agonist drug for ED.

There are no products specifically approved for an FSD indication in the United States. A number of hormonal therapies have been commercialized for other indications, including progestin, androgen and localized estrogen therapies, but none have been approved by the FDA for FSD indications. A number of drugs are in various stages of research or development for FSD. We are not aware of any company actively developing a melanocortin receptor-agonist drug for FSD.

PL-3994 for Heart Failure Indications. Nesiritide (sold under the trade name Natrecor®), a recombinant human B-type natriuretic peptide drug, is marketed in the United States by Scios Inc., a Johnson & Johnson company. Nesiritide is approved for treatment of acutely decompensated congestive HF patients who have dyspnea at rest or with minimal activity. Carperitide, a recombinant human atrial natriuretic peptide drug, is marketed in Japan and is reported to be available for licensing in other countries. Both nesiritide and carperitide are administered by intravenous infusion. Because of the very short half-life of nesiritide, we believe it is unlikely to be suitable for subcutaneous administration or for long-term treatment of HF. We are aware of at least two companies developing intravenously administered natriuretic peptide drugs reported to be in Phase 2 clinical trials for acute HF. In addition, there are a number of approved drugs and drugs in development for treatment of HF through mechanisms or pathways other than agonism of NPRA.

Obesity. There are several FDA-approved drugs for the treatment of obesity, and a large number of products in clinical development by other companies, including products which target melanocortin receptors. Clinical trials for obesity are lengthy, time-consuming and expensive, and we may not be able to proceed if AstraZeneca discontinues work under or terminates our January 2007 license agreement. See the discussion under the heading We do not control the development of compounds licensed to third parties and, as a result, we may not

Table of Contents

realize a significant portion of the potential value of any such license arrangements in Item 1A, Risk Factors in this Annual Report.

Patents and Proprietary Information

Patent protection. Our success will depend in substantial part on our ability to obtain, defend and enforce patents, maintain trade secrets and operate without infringing upon the proprietary rights of others, both in the United States and abroad. We own a number of issued United States patents and have pending United States patent applications, many with issued or pending counterpart patents in selected foreign countries. We seek patent protection for our technologies and products in the United States and those foreign countries where we believe patent protection is commercially important.

We own issued United States and foreign patents claiming the bremelanotide substance. The issued United States patents have a term until 2020, which term may be subject to extension for a maximum period of up to five years as compensation for patent term lost during drug development and the FDA regulatory review process, pursuant to the Drug Price Competition and Patent Term Restoration Act of 1984 (the Hatch-Waxman Amendments). Whether we will be able to obtain patent term extensions under the Hatch-Waxman Amendments and the length of the extension to which we may be entitled cannot be determined until the FDA approves for marketing, if ever, a product in which bremelanotide is the active ingredient. In addition, the claims of issued patents covering bremelanotide may not provide meaningful protection. Further, third parties may challenge the validity or scope of any issued patent.

We have patent applications pending in the United States and foreign countries claiming the PL-3994 substance and other natriuretic peptide receptor agonist compounds we have developed. One United States patent application claiming PL-3994 has been allowed, but other patent applications have not yet been examined, and in any event we do not know the full scope of patent coverage we will obtain, or whether any patents will issue other than the allowed application claiming PL-3994. The allowed patent application will have a term, assuming the patent issues in due course, until 2027, which term may be subject to extension for a maximum period of up to five years as compensation for patent term lost during drug development and the FDA regulatory review process, pursuant to the Hatch-Waxman Amendments. Whether we will be able to obtain patent term extensions under the Hatch-Waxman Amendments and the length of the extension to which we may be entitled cannot be determined until the FDA approves for marketing, if ever, a product in which PL-3994 is the active ingredient.

We have filed patent applications on melanocortin receptor-specific peptides including PL-6983. Until these applications are examined, we do not know the scope of patent claims that will be allowed, or whether any patents will issue.

We have a number of United States and foreign patent applications claiming compounds included in our agreement with AstraZeneca relating to our obesity program. However, many of these patent applications have not yet been examined, and we do not know the scope of patent claims that will be allowed, or whether any patents will issue. Additionally, until one or more compounds are selected for commercialization, which may never occur, we cannot evaluate the duration of patents or their effect on the program.

In the event that a third party has also filed a patent application relating to an invention we claimed in a patent application, we may be required to participate in an interference proceeding adjudicated by the United States Patent and Trademark Office to determine priority of invention. The possibility of an interference proceeding could result in substantial uncertainties and cost, even if the eventual outcome is favorable to us. An adverse outcome could result in the loss of patent protection for the subject of the interference, subjecting us to significant

liabilities to third parties, the need to obtain licenses from third parties at undetermined cost, or requiring us to cease using the technology.

Future patent infringement. We do not know for certain that our commercial activities will not infringe upon patents or patent applications of third parties, some of which may not even have been issued. Although we are not aware of any valid U.S. patents which are infringed by bremelanotide, PL-3994 or PL-6983 or by our methods of making the foregoing, we cannot exclude the possibility that such patents might exist or arise in the future. We may be unable to avoid infringement of any such patents and may have to seek a license, defend an infringement action, or challenge the validity of such patents in court. Patent litigation is costly and time consuming. If such patents are valid and we do not obtain a license under any such patents, or we are found liable for infringement, we may be liable for significant monetary damages, may encounter significant delays in bringing products to market, or may be precluded from participating in the manufacture, use or sale of products or methods of treatment covered by such patents.

Table of Contents

Proprietary information. We rely on proprietary information, such as trade secrets and know-how, which is not patented. We have taken steps to protect our unpatented trade secrets and know-how, in part through the use of confidentiality and intellectual property agreements with our employees, consultants and certain contractors. If our employees, scientific consultants, collaborators or licensees develop inventions or processes independently that may be applicable to our product candidates, disputes may arise about the ownership of proprietary rights to those inventions and processes. Such inventions and processes will not necessarily become our property, but may remain the property of those persons or their employers. Protracted and costly litigation could be necessary to enforce and determine the scope of our proprietary rights.

If trade secrets are breached, our recourse will be solely against the person who caused the secrecy breach. This might not be an adequate remedy to us, because third parties other than the person who causes the breach will be free to use the information without accountability to us. This is an inherent limitation of the law of trade secret protection.

Governmental Regulation

The FDA, comparable agencies in other countries and state regulatory authorities have established regulations and guidelines which apply to, among other things, the clinical testing, manufacturing, safety, efficacy, labeling, storage, record keeping, advertising, promotion, marketing and distribution of our proposed products. Noncompliance with applicable requirements can result in fines, recalls or seizures of products, total or partial suspension of production, refusal of the regulatory authorities to approve marketing applications, withdrawal of approvals and criminal prosecution.

Before a drug product is approved by the FDA for commercial marketing, three phases of human clinical trials are usually conducted to test the safety and effectiveness of the product. Phase 1 clinical trials most typically involve testing the drug on a small number of healthy volunteers to assess the safety profile of the drug at different dosage levels. Phase 2 clinical trials, which may also enroll a relatively small number of patient volunteers, are designed to further evaluate the drug s safety profile and to provide preliminary data as to the drug s effectiveness in humans. Phase 3 clinical trials consist of larger, well-controlled studies that may involve several hundred or thousand patient volunteers representing the drug s targeted population. During any of these phases, the clinical trial can be placed on clinical hold, or temporarily or permanently stopped for a variety of reasons, principally for safety concerns.

After approving a product for marketing, the FDA may require post-marketing testing, including extensive Phase 4 studies, and surveillance to monitor the safety and effectiveness of the product in general use. The FDA may withdraw product approvals if compliance with regulatory standards is not maintained or if problems occur following initial marketing. In addition, the FDA may impose restrictions on the use of a drug that may limit its marketing potential. The failure to comply with applicable regulatory requirements in the U.S. and in other countries in which we conduct development activities could result in a variety of fines and sanctions, such as warning letters, product recalls, product seizures, suspension of operations, fines and civil penalties or criminal prosecution.

In addition to obtaining approval of a New Drug Application (an NDA) from the FDA for any of our proposed products, any facility that manufactures such a product must comply with current good manufacturing practices (GMPs). This means, among other things, that the drug manufacturing establishment must be registered with, and subject to inspection by, the FDA. Foreign manufacturing establishments must also comply with GMPs and are subject to periodic inspection by the FDA or by corresponding regulatory agencies in such other countries under reciprocal agreements with the FDA. In complying with standards established by the FDA, manufacturing establishments must continue to expend time, money and effort in the areas of production and quality control to ensure full technical compliance. We will use contract manufacturing establishments, in the United States or in foreign countries, to manufacture our proposed products, and will depend on those establishments to comply with GMPs and other regulatory requirements.

Third-Party Reimbursements

Successful sales of our proposed products in the United States and other countries will depend on the availability of adequate reimbursement from third-party payors such as governmental entities, managed care organizations, health maintenance organizations (HMOs) and private insurance plans. Reimbursement by a third-party payor may depend on a number of factors, including the payor s determination that the product has been approved by the FDA for the indication for which the claim is being made, that it is neither experimental nor investigational, and that the use of the product is safe and efficacious, medically necessary, appropriate for the specific patient and cost effective. Since reimbursement by one payor does not guarantee reimbursement by another, we or our licensees may be required to seek approval from each payor individually. Seeking such approvals is a time-consuming and costly process. Third-party payors routinely limit the products that they will cover and the

Table of Contents

amount of money that they will pay and, in many instances, are exerting significant pressure on medical suppliers to lower their prices. There is significant uncertainty concerning third-party reimbursement for the use of any pharmaceutical product incorporating new technology and we are not sure whether third-party reimbursement will be available for our proposed products once approved, or that the reimbursement, if obtained, will be adequate. There is also significant uncertainty concerning third-party reimbursement for products treating FSD and ED. Less than full reimbursement by governmental and other third-party payors for our proposed products would adversely affect the market acceptance of these proposed products. Further, healthcare reimbursement systems vary from country to country, and we are not sure whether third-party reimbursement will be made available for our proposed products under any other reimbursement system.

Manufacturing and Marketing

To be successful, our proposed products will need to be manufactured in commercial quantities under GMPs prescribed by the FDA and at acceptable costs. We do not have the facilities to manufacture any of our proposed products under GMPs. We intend to rely on collaborators, licensees or contract manufacturers for the commercial manufacture of our proposed products.

Our bremelanotide product candidate is a synthetic peptide. While the production process involves well-established technology, there are few manufacturers capable of scaling up to commercial quantities under GMPs at acceptable costs. We have identified and contracted with a third-party manufacturer for the production of bremelanotide, and have validated manufacturing of the bremelanotide drug substance under GMPs. However, we have not negotiated a long-term supply agreement with the third-party manufacturer, and may not be able to enter into a supply agreement on acceptable terms, if at all.

Our PL-3994 product candidate is a peptide mimetic molecule, incorporating a proprietary amino acid mimetic structure and amino acids. We have identified a manufacturer which made the product in quantities sufficient for Phase 1 and some anticipated Phase 2 clinical trials, and are in the process of evaluating commercial-scale manufacturers. Scaling up to commercial quantities may involve production, purification, formulation and other problems not present in the scale of manufacturing done to date.

Our PL-6983 product candidate is also a synthetic peptide. We have manufactured PL-6983 in-house, but have not contracted with a third-party manufacturer to produce the product for either clinical trials or commercial purposes. While the production process involves well-established technology, there are few manufacturers capable of scaling up to commercial quantities under GMPs at acceptable costs. Additionally, scaling up to commercial quantities may involve production, purification, formulation and other problems not present in the scale of manufacturing done to date.

The failure of any manufacturer or supplier to comply with FDA GMPs or to supply the drug substance and services as agreed, would force us to seek alternative sources of supply and could interfere with our ability to deliver product on a timely and cost effective basis or at all. Establishing relationships with new manufacturers or suppliers, any of whom must be FDA-approved, is a time-consuming and costly process.

Product Liability and Insurance

Our business may be affected by potential product liability risks which are inherent in the testing, manufacturing, marketing and use of our proposed products. We have liability insurance providing up to $10.0 million coverage in the aggregate as to certain clinical trial risks.

Employees

As of September 25, 2009, we employed 43 persons full time, of whom 30 are engaged in research and development activities and 13 are engaged in administration and management. Of our employees, 15 hold Ph.D. or M.D. degrees. While we have been successful in attracting skilled and experienced scientific personnel, competition for personnel in our industry is intense. None of our employees are covered by a collective bargaining agreement. All of our employees have executed confidentiality and intellectual property agreements. We consider relations with our employees to be good.

From time to time, we hire scientific consultants to work on specific research and development programs. We also rely on independent organizations, advisors and consultants to provide services, including aspects of manufacturing, clinical management, regulatory strategy and market research. Our independent advisors and consultants sign agreements that provide for confidentiality of our proprietary information and rights to any intellectual property developed while working for us.

Table of Contents

Item 1A. Risk Factors.

We expect to continue to incur substantial losses over the next few years and we may never become profitable.

We have never been profitable and we may never become profitable. As of June 30, 2009, we had an accumulated deficit of $207.4 million. We expect to incur additional losses as we continue our development of bremelanotide, PL-3994 and PL-6983. Unless and until we receive approval from the FDA or other equivalent regulatory authorities outside the United States, we cannot sell our products and will not have product revenues from them. Therefore, for the foreseeable future, we will have to fund all of our operations and capital expenditures from reimbursements and other contract revenue under collaborative development agreements, existing cash balances and outside sources of financing, which may not be available on acceptable terms, if at all.

We expect that we will need to continue to raise funds in the future, and funds may not be available on acceptable terms, or at all.

As of June 30, 2009, we had cash and cash equivalents of $4.4 million and available-for-sale investments of $3.4 million, with current liabilities of $1.7 million excluding the current portion of deferred revenues of $2.7 million. In August 2009, we received net proceeds of $2.8 million resulting from a registered direct offering of units consisting of our common stock and warrants. In September 2009, we signed an amendment to our collaboration agreement with AstraZeneca providing for $5 million in payments to us, with an initial payment of $2.5 million and the balance in the first quarter of calendar 2010. While we believe that the foregoing is adequate to fund operations through at least September 30, 2010, we will need additional funds to continue development of bremelanotide, PL-3994 and PL-6983, as well as our early stage research and discovery programs, and to fund operations after that date.

We may raise additional funds through public or private equity financings, collaborative arrangements on our product candidates or other sources. However, additional funding may not be available on acceptable terms or at all. If adequate funds are not available when needed, we will need to further curtail operations significantly, including the delay, modification or cancelation of operations and plans, including preclinical studies and clinical trials, related to bremelanotide, PL-3994 and PL-6983. To obtain additional funding, we may need to enter into arrangements that require us to develop only certain of our product candidates or relinquish rights to certain technologies, product candidates and/or potential markets.

Based upon the recent price of our common stock on the NYSE Amex LLC (the NYSE Amex), even if we are able to raise additional capital it is likely that our existing stockholders will experience substantial dilution.

In order to raise any meaningful amount of capital, as we intend, based upon our recent stock price we will almost certainly need to sell a significant amount of equity securities, either in the form of new shares of common stock or some other form of convertible security. Any significant sale of equity securities in any form at these prices will result in significant dilution to our existing stockholders. The prospect of this dilution is likely to continue to have a negative effect on the market price and trading volume of our common stock until such time as an actual financing occurs.

Our common stock may be delisted from the NYSE Amex, making it difficult to trade shares of our common stock.

On December 23, 2008, we received notice from the exchange now known as NYSE Amex notifying us that NYSE Amex had determined that we did not meet continued listing standards based on a review of our Form 10-Q for the fiscal quarter ended September 30, 2008. In a letter to us, NYSE Amex stated that Palatin was not in compliance with Section 1003(a)(ii) of NYSE Amex s Company Guide (the Company Guide) because our stockholders equity was less than the required $4,000,000 and we had losses from continuing operations and net losses in three of our four most recent fiscal years and not in compliance with Section 1003(a)(iii) of the Company Guide because our stockholders equity was less than the required $6,000,000 and we had losses from continuing operations and net losses in our five most recent fiscal years. The letter from NYSE Amex also stated that because our stock had been trading below $0.25 per share over the previous seven months, NYSE Amex deemed it appropriate for us to effect a reverse stock split in accordance with Section 1003(f)(v) of the Company Guide.

In order to maintain our NYSE Amex listing, we submitted a plan on January 23, 2009 advising NYSE Amex what we intend to do to bring us into compliance with the continued listing standards identified above by June 23, 2010. On February 27, 2009, NYSE Amex notified us that it had accepted our plan for regaining compliance, and that our listing on NYSE Amex was being continued pursuant to an extension. We may be able to continue our listing during the plan period through June 23, 2010, subject to periodic review by NYSE Amex to determine if we are making progress consistent with the plan. If we do not regain compliance with Sections 1003(a)(ii) and (iii) by

Table of Contents

June 23, 2010, or if we do not make progress consistent with the plan during the plan period, NYSE Amex may initiate delisting procedures.

If we are delisted from NYSE Amex then our common stock will trade, if at all, only on the over-the-counter market, such as the OTC Bulletin Board securities market, and then only if one or more registered broker-dealer market makers comply with quotation requirements. In addition, delisting of our common stock could further depress our stock price, substantially limit liquidity of our common stock and materially adversely affect our ability to raise capital on terms acceptable to us, or at all. Delisting from NYSE Amex could also have other negative results, including the potential loss of confidence by suppliers and employees, the loss of institutional investor interest and fewer business development opportunities.

We may implement a reverse stock split, which will reduce our trading volume and may result in a decrease in our market capitalization.

As discussed in the risk factor above, NYSE Amex deems it appropriate for us to implement a reverse stock split because our stock had been trading below $0.25 per share over a seven month period. At the annual meeting of stockholders held on May 13, 2009, the stockholders authorized a reverse stock split which, if implemented, will combine between two and fifteen shares of outstanding common stock into one share of new common stock. The reverse stock split may be implemented at any time until May 13, 2010 upon a determination by our board of directors that the reverse stock split is in the best interests of the company and its stockholders. If the board decides to proceed with the reverse split, the board will determine the exact reverse split ratio and effective date. If we do not complete a reverse stock split within a reasonable amount of time, NYSE Amex may consider suspending dealings in our common stock or initiate delisting procedures. In determining whether to proceed with the reverse split and setting the exact ratio of the split, the board will consider a number of factors, including additional funding requirements, the amount of our authorized but unissued common stock, market conditions, existing and expected trading prices of our common stock and NYSE Amex listing requirements. We anticipate that the reverse split, if the board determines to proceed with the reverse split, will be implemented in conjunction with an equity financing or other transaction. We believe it is likely that the per share market price of our common stock will increase after a reverse split. However, we cannot guarantee that our common stock price will increase, and even if it does, we cannot guarantee that the price increase:

will be proportionate to the reverse split ratio;

will last in the marketplace for any length of time;

will be sufficient to meet the listing requirements of NYSE Amex; or

will be sufficient to facilitate raising capital.

We have a limited operating history upon which to base an investment decision.

Our operations to date have been primarily focused on acquiring, developing and securing our proprietary technology, conducting preclinical and clinical studies and formulating and manufacturing on a small-scale basis our principal product candidates. These operations provide a limited basis for stockholders to assess our ability to commercialize our product candidates.

We have not yet demonstrated our ability to perform the functions necessary for the successful commercialization of any of our current product candidates. The successful commercialization of our product candidates will require us to perform a variety of functions, including:

continuing to conduct preclinical development and clinical trials;

participating in regulatory approval processes;

formulating and manufacturing products, or having third parties formulate and manufacture products;

post-approval pharmacovigilance;

conducting sales and marketing activities, either alone or with a partner; and

obtaining additional capital.

If we are unable to obtain regulatory approval of any of our product candidates, to successfully commercialize any products for which we receive regulatory approval or to obtain additional capital, we may not be able to recover our investment in our development efforts.

Table of Contents

Development and commercialization of our product candidates involves a lengthy, complex and costly process, and we may never successfully develop or commercialize any product.

Our product candidates are at various stages of research and development, will require regulatory approval, and may never be successfully developed or commercialized. Our product candidates will require significant further research, development and testing before we can seek regulatory approval to market and sell them.

We must demonstrate that our product candidates are safe and effective for use in patients in order to receive regulatory approval for commercial sale. Preclinical studies in animals, using various doses and formulations, must be performed before we can begin human clinical trials. Even if we obtain favorable results in the preclinical studies, the results in humans may be different. Numerous small-scale human clinical trials may be necessary to obtain initial data on a product candidate s safety and efficacy in humans before advancing to large-scale human clinical trials. We face the risk that the results of our trials in later phases of clinical trials may be inconsistent with those obtained in earlier phases. Adverse or inconclusive results could delay the progress of our development programs and may prevent us from filing for regulatory approval of our product candidates. Additional factors that can cause delay or termination of our human clinical trials include:

timely completion of clinical site protocol approval and obtaining informed consent from subjects;

the rate of patient enrollment in clinical studies;

adverse medical events or side effects in treated patients; and

lack of effectiveness of the product being tested.

You should evaluate us in light of these uncertainties, delays, difficulties and expenses commonly experienced by early stage biopharmaceutical companies, as well as unanticipated problems and additional costs relating to:

product approval or clearance;

regulatory compliance;

good manufacturing practices;

intellectual property rights;

product introduction; and

marketing and competition.

The regulatory approval process is lengthy, expensive and uncertain, and may prevent us from obtaining the approvals we require.

Government authorities in the United States and other countries extensively regulate the advertising, labeling, storage, record-keeping, safety, efficacy, research, development, testing, manufacture, promotion, marketing and distribution of drug products. Drugs are subject to rigorous regulation by the FDA in the United States and similar regulatory bodies in other countries. The steps ordinarily required by the FDA before a new drug may be marketed in the United States include:

completion of non-clinical tests including preclinical laboratory and formulation studies and animal testing and toxicology;

submission to the FDA of an IND, which must become effective before clinical trials may begin;

performance of adequate and well-controlled Phase 1, 2 and 3 human clinical trials to establish the safety and efficacy of the drug for each proposed indication;

submission to the FDA of an NDA; and

FDA review and approval of the NDA before any commercial marketing or sale.

Satisfaction of FDA pre-market approval requirements for new drugs typically takes a number of years and the actual time required for approval may vary substantially based upon the type, complexity and novelty of the product or disease. The results of product development, preclinical studies and clinical trials are submitted to the FDA as part of an NDA. The NDA also must contain extensive manufacturing information. Once the submission has been accepted for filing, the FDA generally has ten months to review the application and respond to the applicant. The review process is often significantly extended by FDA requests for additional information or clarification.

Table of Contents

Success in early stage clinical trials does not assure success in later stage clinical trials. Data obtained from clinical trials is not always conclusive and may be susceptible to varying interpretations that could delay, limit or prevent regulatory approval. The FDA may refer the NDA to an advisory committee for review, evaluation and recommendation as to whether the application should be approved, but the FDA is not bound by the recommendation of the advisory committee. The FDA may deny or delay approval of applications that do not meet applicable regulatory criteria or if the FDA determines that the clinical data do not adequately establish the safety and efficacy of the drug. Therefore, our proposed products could take a significantly longer time than we expect or may never gain approval. If regulatory approval is delayed or never obtained, our business and our liquidity would be adversely affected.

Upon approval, a product candidate may be marketed only in those dosage forms and for those indications approved by the FDA. Once approved, the FDA may withdraw the product approval if compliance with regulatory requirements is not maintained or if problems occur after the product reaches the marketplace. In addition, the FDA may require post-marketing studies, referred to as Phase 4 studies, to monitor the approved products in a larger number of patients than were required for product approval and may limit further marketing of the product based on the results of these post-market studies. The FDA has broad post-market regulatory and enforcement powers, including the ability to seek

injunctions, levy fines and civil penalties, criminal prosecution, withdraw approvals and seize products or request recalls.

If regulatory approval of any of our product candidates is granted, it will be limited to certain disease states or conditions. Adverse experiences with the product must be reported to the FDA and could result in the imposition of market restriction through labeling changes or in product removal. Product approvals may be withdrawn if compliance with regulatory requirements is not maintained or if problems concerning safety or efficacy of the product occur following approval.

Outside the United States, our ability to market our product candidates will also depend on receiving marketing authorizations from the appropriate regulatory authorities. The foreign regulatory approval process generally includes all of the risks associated with FDA approval described above. The requirements governing the conduct of clinical trials and marketing authorization vary widely from country to country. At present, foreign marketing authorizations are applied for at a national level, although within the European Community, or EC, registration procedures are available to companies wishing to market a product to more than one EC member state. If the regulatory authority is satisfied that adequate evidence of safety, quality and efficiency has been presented, a marketing authorization will be granted.

If any approved product does not achieve market acceptance, our business will suffer.

Regulatory approval for the marketing and sale of any of our product candidates does not assure the product s commercial success. Any approved product will compete with other products manufactured and marketed by major pharmaceutical and other biotechnology companies. The degree of market acceptance of any such product will depend on a number of factors, including:

perceptions by members of the healthcare community, including physicians, about its safety and effectiveness;

cost-effectiveness relative to competing products and technologies;

availability of reimbursement for our products from third party payors such as health insurers, health maintenance organizations and government programs such as Medicare and Medicaid; and

advantages over alternative treatment methods.

If any approved product does not achieve adequate market acceptance, our business, financial condition and results of operations will be adversely affected.

We rely on third parties to conduct clinical trials for our product candidates and their failure to timely perform their obligations could significantly harm our product development.

We rely on outside scientific collaborators such as researchers at clinical research organizations and universities in certain areas that are particularly relevant to our research and product development plans, such as the conduct of clinical trials and non-clinical tests. There is competition for these relationships, and we may not be able to maintain our relationships with them on acceptable terms. These outside collaborators generally may terminate their engagements with us at any time. As a result, we can control their activities only within certain limits, and they will devote only a certain amount of their time to conduct research on our product candidates and develop them. If they do not successfully carry out their duties under their agreements with us, fail to inform us if these trials fail to

Table of Contents

comply with clinical trial protocols or fail to meet expected deadlines, our ability to develop our product candidates and obtain regulatory approval on a timely basis, if at all, may be adversely affected.

Production and supply of our product candidates depend on contract manufacturers over whom we have no control.

We do not have the facilities to manufacture bremelanotide, PL-3994 or PL-6983 or our other potential products. Our contract manufacturers must perform these manufacturing activities in a manner that complies with FDA regulations. Our ability to control third-party compliance with FDA requirements will be limited to contractual remedies and rights of inspection. The manufacturers of approved products and their manufacturing facilities will be subject to continual review and periodic inspections by the FDA and other authorities where applicable,

and must comply with ongoing regulatory requirements, including the FDA s GMPs regulations. Failure of third-party manufacturers to comply with GMPs or other FDA requirements may result in enforcement action by the FDA. Failure to conduct their activities in compliance with FDA regulations could delay our development programs or negatively impact our ability to receive FDA approval of our potential products or continue marketing if they are approved. Establishing relationships with new suppliers, who must be FDA-approved, is a time-consuming and costly process.

We are subject to extensive regulation in connection with the laboratory practices and the hazardous materials we use.

We are subject to various laws and regulations regarding laboratory practices, the experimental use of animals and the use and disposal of hazardous or potentially hazardous substances in connection with our research. In each of these areas, as noted above, the FDA and other regulatory authorities have broad regulatory and enforcement powers, including the ability to levy fines and civil penalties, suspend or delay issuance of approvals, seize or recall products and withdraw approvals, any one or more of which could have a material adverse effect on us. We are also subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous substances. We may incur significant costs to comply with such laws and regulations now or in the future.

Contamination or injury from hazardous materials used in the development of our products could result in a liability exceeding our financial resources.

Our research and development involves the use of hazardous materials and chemicals, including radioactive compounds. Wetom">

Cash and cash equivalents	
$447	**$555**
Trade receivables, less allowance for doubtful accounts of $22 and $20	
572	**449**
Earned but unbilled receivables	
114	**110**
Prepaid expenses and other current assets	
116	**105**
Total current assets	
1,249	**1,219**
Property and equipment, less accumulated depreciation of $414 and $420	

152 **147**

Software products, less accumulated amortization of $1,754 and $1,760

224 **220**

Customer base, less accumulated amortization of $531 and $539

360 **346**

Other assets, less accumulated amortization of $22 and $23

94 **74**

Trade name

672 **672**

Goodwill

3,760 **3,711**

Total Assets

$6,511 **$6,389**

Liabilities and Equity

Current:

Short-term and current portion of long-term debt	
$ **$1**	
Accounts payable	
21 **10**	
Accrued compensation and benefits	
227 **143**	
Accrued interest expense	
30 **68**	
Other accrued expenses	
127 **128**	
Deferred revenue	
589 **569**	
Total current liabilities	
994 **919**	
Long-term debt	
4,669 **4,669**	
Deferred and other income taxes	
616 **607**	
Other long-term liabilities	
32 **30**	

Total liabilities

6,311 **6,225**

Commitments and contingencies

Preferred stock subject to a put option

31 **31**

Stockholders equity:

Preferred stock, par value $.001 per share; cumulative 11.5% per annum, compounded quarterly; aggregate liquidation preference of $1,498 million and $1,542 million; 14,999,000 shares authorized, 10,060,069 shares issued

Common stock, par value $.001 per share; 1,000 shares authorized, 100 shares issued and oustanding

Capital in excess of par value

3,519 **3,525**

Treasury stock, 2,516,374 and 2,510,042 preferred shares

(280) **(279)**

Accumulated deficit

(2,939) **(2,911)**

Accumulated other comprehensive income (loss)

(132) **(203)**

Total stockholder s equity

168 **132**

Noncontrolling interest

1 **1**

Total Equity

169 **133**

Total Liabilities and Equity	
$6,511	**$6,389**

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

Table of Contents

SunGard Capital Corp. II

Condensed Consolidated Statements of Comprehensive Income (Loss)

(In millions)

(Unaudited)

	Three Months Ended March 31,	
	2014	**2015**
Revenue	$ 653	**$ 671**
Costs and expenses:		
Cost of sales and direct operating (excluding items described in Note 1)	269	**268**
Sales, marketing and administration	168	**152**
Product development and maintenance	99	**86**
Depreciation	24	**29**
Amortization of acquisition-related intangible assets	43	**21**
Trade name impairment charge	339	
Total costs and expenses	942	**556**
Operating income (loss)	(289)	**115**
Other income (expense):		
Interest expense and amortization of deferred financing fees	(74)	**(71)**
Loss on extinguishment of debt	(61)	
Other income (expense)	(135)	**(71)**
Income (loss) from continuing operations before income taxes	(424)	**44**
Benefit from (provision for) income taxes	101	**(18)**
Income (loss) from continuing operations	(323)	**26**
Income (loss) from discontinued operations, net of tax	(17)	**2**
Net income (loss)	(340)	**28**
Other comprehensive income (loss):		
Foreign currency translation, net	22	**(67)**
Unrealized gain (loss) on derivative instruments, net of tax	3	**(4)**
Other comprehensive income (loss)	25	**(71)**
Comprehensive income (loss)	$ (315)	**$ (43)**

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

Table of Contents

SunGard Capital Corp. II

Condensed Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Three Months Ended March 31,	
	2014	**2015**
Cash flow from operations:		
Net income (loss)	$ (340)	**$ 28**
Income (loss) from discontinued operations	(17)	**2**
Income (loss) from continuing operations	(323)	**26**
Reconciliation of income (loss) from continuing operations to cash flow from (used in) operations:		
Depreciation and amortization	67	**50**
Trade name impairment charge	339	
Deferred income tax provision (benefit)	(83)	**(6)**
Stock compensation expense	9	**10**
Amortization of deferred financing costs and debt discount	7	**4**
Loss on extinguishment of debt	61	
Changes in working capital:		
Accounts receivable and other current assets	101	**125**
Accounts payable and accrued expenses	(111)	**(104)**
Accrued interest	34	**39**
Accrued income taxes	(17)	**23**
Deferred revenue	2	**(13)**
Cash flow from (used in) continuing operations	86	**154**
Cash flow from (used in) discontinued operations	36	
Cash flow from (used in) operations	122	**154**
Investment activities:		
Cash paid for acquired businesses, net of cash acquired		**(4)**
Cash paid for property and equipment, and software	(28)	**(28)**
Cash provided by (used in) continuing operations	(28)	**(32)**
Cash provided by (used in) discontinued operations	5	**1**
Cash provided by (used in) investment activities	(23)	**(31)**
Financing activities:		

Cash received from borrowings, net of fees		(6)		
Cash used to repay debt		(1,324)		
Cash used to purchase treasury stock		(2)		**(1)**
Other financing activities		(6)		**(3)**
Cash provided by (used in) continuing operations		(1,338)		**(4)**
Cash provided by (used in) discontinued operations		887		
Cash provided by (used in) financing activities		(451)		**(4)**
Effect of exchange rate changes on cash		1		**(11)**
Increase (decrease) in cash and cash equivalents		(351)		**108**
Beginning cash and cash equivalents, including cash of discontinued operations: 2014, $31; 2015, $		706		**447**
Ending cash and cash equivalents	$	355	**$**	**555**
Supplemental information:				
Interest paid	$	58	**$**	**28**
Income taxes paid, net of refunds of $12 million and $12 million, respectively	$	4	**$**	**1**
Non-cash financing activities:				
Distribution of net assets of SpinCo (See Note 1)	$	223	**$**	
Receipt of SpinCo Notes in connection with the AS Split-Off (See Note 1)	$	425	**$**	
Exchange of SpinCo Notes for SunGard Notes	$	389	**$**	

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

Table of Contents

SunGard Data Systems Inc.

Condensed Consolidated Balance Sheets

(In millions except share and per-share amounts)

(Unaudited)

	December 31, 2014	**March 31, 2015**
Assets		
Current:		
Cash and cash equivalents	$ 447	**$ 555**
Trade receivables, less allowance for doubtful accounts of $22 and $20	572	**449**
Earned but unbilled receivables	114	**110**
Prepaid expenses and other current assets	112	**101**
Total current assets	1,245	**1,215**
Property and equipment, less accumulated depreciation of $414 and $420	152	**147**
Software products, less accumulated amortization of $1,754 and $1,760	224	**220**
Customer base, less accumulated amortization of $531 and $539	360	**346**
Other assets, less accumulated amortization of $22 and $23	94	**74**
Trade name	672	**672**
Goodwill	3,760	**3,711**
Total Assets	$ 6,507	**$ 6,385**
Liabilities and Equity		
Current:		
Short-term and current portion of long-term debt	$	**$ 1**
Accounts payable	21	**10**
Accrued compensation and benefits	227	**143**
Accrued interest expense	30	**68**
Other accrued expenses	127	**128**
Deferred revenue	589	**569**
Total current liabilities	994	**919**
Long-term debt	4,669	**4,669**
Deferred and other income taxes	608	**599**
Other long-term liabilities	31	**30**
Total liabilities	6,302	**6,217**

Commitments and contingencies		
Stockholder s equity:		
Common stock, par value $.01 per share; 100 shares authorized, issued and oustanding		
Capital in excess of par value	3,380	**3,386**
Accumulated deficit	(3,044)	**(3,016)**
Accumulated other comprehensive income (loss)	(132)	**(203)**
Total stockholder s equity	204	**167**
Noncontrolling interest	1	**1**
Total Equity	205	**168**
Total Liabilities and Equity	$ 6,507	**$ 6,385**

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

Table of Contents

SunGard Data Systems Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(In millions)

(Unaudited)

	Three Months Ended March 31,	
	2014	**2015**
Revenue	$ 653	**$ 671**
Costs and expenses:		
Cost of sales and direct operating (excluding items described in Note 1)	269	**268**
Sales, marketing and administration	168	**152**
Product development and maintenance	99	**86**
Depreciation	24	**29**
Amortization of acquisition-related intangible assets	43	**21**
Trade name impairment charge	339	
Total costs and expenses	942	**556**
Operating income (loss)	(289)	**115**
Other income (expense):		
Interest expense and amortization of deferred financing fees	(74)	**(71)**
Loss on extinguishment of debt	(61)	
Other income (expense)	(135)	**(71)**
Income (loss) from continuing operations before income taxes	(424)	**44**
Benefit from (provision for) income taxes	101	**(18)**
Income (loss) from continuing operations	(323)	**26**
Income (loss) from discontinued operations, net of tax	(17)	**2**
Net income (loss)	(340)	**28**
Other comprehensive income (loss):		
Foreign currency translation, net	22	**(67)**
Unrealized gain (loss) on derivative instruments, net of tax	3	**(4)**
Other comprehensive income (loss)	25	**(71)**
Comprehensive income (loss)	$ (315)	**$ (43)**

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

Table of Contents

SunGard Data Systems Inc.

Condensed Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Three Months Ended March 31,	
	2014	**2015**
Cash flow from operations:		
Net income (loss)	$ (340)	**$ 28**
Income (loss) from discontinued operations	(17)	**2**
Income (loss) from continuing operations	(323)	**26**
Reconciliation of income (loss) from continuing operations to cash flow from (used in) operations:		
Depreciation and amortization	67	**50**
Trade name impairment charge	339	
Deferred income tax provision (benefit)	(83)	**(6)**
Stock compensation expense	9	**10**
Amortization of deferred financing costs and debt discount	7	**4**
Loss on extinguishment of debt	61	
Changes in working capital:		
Accounts receivable and other current assets	101	**125**
Accounts payable and accrued expenses	(111)	**(104)**
Accrued interest	34	**39**
Accrued income taxes	(17)	**23**
Deferred revenue	2	**(13)**
Cash flow from (used in) continuing operations	86	**154**
Cash flow from (used in) discontinued operations	36	
Cash flow from (used in) operations	122	**154**
Investment activities:		
Cash paid for acquired businesses, net of cash acquired		**(4)**
Cash paid for property and equipment, and software	(28)	**(28)**
Cash provided by (used in) continuing operations	(28)	**(32)**
Cash provided by (used in) discontinued operations	5	**1**
Cash provided by (used in) investment activities	(23)	**(31)**
Financing activities:		

Cash received from borrowings, net of fees		(6)		
Cash used to repay debt		(1,324)		
Other financing activities		(8)		**(4)**
Cash provided by (used in) continuing operations		(1,338)		**(4)**
Cash provided by (used in) discontinued operations		887		
Cash provided by (used in) financing activities		(451)		**(4)**
Effect of exchange rate changes on cash		1		**(11)**
Increase (decrease) in cash and cash equivalents		(351)		**108**
Beginning cash and cash equivalents, including cash of discontinued operations: 2014, $31; 2015, $		706		**447**
Ending cash and cash equivalents	$	355	**$**	**555**
Supplemental information:				
Interest paid	$	58	**$**	**28**
Income taxes paid, net of refunds of $12 million and $12 million, respectively	$	4	**$**	**1**
Non-cash Financing activities:				
Distribution of net assets of SpinCo (See Note 1)	$	227	**$**	
Receipt of SpinCo Notes in connection with the AS Split-Off (See Note 1)	$	425	**$**	
Exchange of SpinCo Notes for SunGard Notes	$	389	**$**	

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

Table of Contents

SUNGARD CAPITAL CORP.

SUNGARD CAPITAL CORP. II

SUNGARD DATA SYSTEMS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation:

SunGard Data Systems Inc. (SunGard) is one of the world s leading software and technology services companies and has two reportable segments: Financial Systems (FS) and Public Sector & Education (PS&E). The condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated.

SunGard was acquired on August 11, 2005 in a leveraged buy-out (the LBO) by a consortium of private equity investment funds associated with Bain Capital Partners, The Blackstone Group, Goldman Sachs & Co., Kohlberg Kravis Roberts & Co., Providence Equity Partners, Silver Lake and TPG (collectively, the Sponsors).

SunGard is a wholly owned subsidiary of SunGard Holdco LLC, which is wholly owned by SunGard Holding Corp., which is wholly owned by SunGard Capital Corp. II (SCCII), which is a subsidiary of SunGard Capital Corp. (SCC). All four of these companies were formed for the purpose of facilitating the LBO and are collectively referred to as the Holding Companies. SCC, SCCII and SunGard are separate reporting companies and, together with their direct and indirect subsidiaries, are collectively referred to as the Company. The Holding Companies have no other operations beyond those of their ownership of SunGard.

On March 31, 2014, SunGard completed the split-off of its Availability Services (AS) business to its existing stockholders, including its private equity owners, on a tax-free and pro-rata basis. As part of that transaction, the assets and liabilities of the AS business were contributed to a new subsidiary, and then SunGard transferred all of its ownership interests in that subsidiary to Sungard Availability Services Capital, Inc. (SpinCo) in exchange for common stock of SpinCo, approximately $425 million of SpinCo senior notes (SpinCo Notes), and $1,005 million of net cash proceeds from the issuance of an AS term loan facility (SpinCo Term Loan). Immediately after these transactions, SunGard distributed the common stock of SpinCo through SunGard s ownership chain ultimately to SCCII, and then all stockholders of preferred stock of SCCII exchanged a portion of their shares of preferred stock for all of the shares of common stock of SpinCo on a pro-rata basis (together, with the transactions described above, the AS Split-Off).

The AS business, which was split-off on March 31, 2014, and two small FS businesses, which were sold on January 31, 2014, have been included in our financial results as discontinued operations for all periods presented.

The accompanying interim condensed consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), consistent in all material respects with those applied in the Company s Annual Report on Form 10-K for the year ended December 31, 2014. Interim financial reporting does not include all of the information and footnotes required by GAAP for annual financial statements. The interim financial information is unaudited, but, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments necessary to provide a fair statement of results for the interim periods presented. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The Condensed Consolidated Statement of Comprehensive Income (Loss) for the three months ended March 31, 2014 has been revised to present stock compensation expense and developer time spent on customer billable professional services projects in the correct functional expense categories. Refer to Note 2 for additional details.

Table of Contents

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 split-off on March 31, 2014. The removal of the cumulative foreign currency translation loss was reflected in both the Condensed Consolidated Statements of Comprehensive Income (Loss) and the rollforwards of stockholders equity included in the notes to the condensed consolidated financial statements in each of the Quarterly Reports. However, the inclusion of this item in the 2014 Condensed Consolidated Statements of Comprehensive Income (Loss) was not appropriate since it relates to the distribution of the AS businesses to the Company s 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. The following table presents the amounts as originally reported and as revised for each of SCC, SCCII and SunGard (in millions):

	Three Months Ended March 31, 2014	
	As Reported	As Revised
Other Comprehensive Income (loss)	$ (57)	$ 25
Comprehensive Income (Loss)	(397)	(315)
Comprehensive Income (Loss) attributable to SunGard Capital Corp. (SCC only)	(447)	(365)

Cost of Sales and Direct Operating Expenses

Cost of sales and direct operating expenses represents the cost of providing the Company s software and services offerings to customers and excludes depreciation, amortization and the cost of maintenance.

Recent Accounting Pronouncements

Recently Adopted

In April 2014, the Financial Accounting Standards Board (FASB) issued Auditing Standards Update (ASU) 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity that changes the criteria for reporting a discontinued operation. According to the new guidance, only disposals of a component that represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results is a discontinued operation. The new guidance also requires expanded disclosures about discontinued operations and disposals of a significant part of an entity that does not qualify for discontinued operations reporting. ASU 2014-08 was effective beginning January 1, 2015, but only for disposals (or classifications as held for sale) that have not been reported in previously-issued financial statements. ASU 2014-08 will affect how the Company identifies and presents discontinued operations in the consolidated financial statements.

Table of Contents

Recently Issued

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance. This new guidance establishes a five step process that companies must use in order to recognize revenue properly. Those five steps are: (i) identifying contract(s) with a customer, (ii) identifying the performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the performance obligations in the contract, and (v) recognizing revenue when (or as) the entity satisfies a performance obligation. The new ASU will affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. ASU 2014-09 was to be effective for the Company starting in the first quarter of fiscal 2017. However, in April 2015, the FASB proposed a deferral of the effective date of the new revenue standard by one year, but to permit entities to adopt one year earlier if they choose (i.e., the original effective date). ASU 2014-09 allows for two methods of adoption: (a) full retrospective adoption, meaning the standard is applied to all periods presented, or (b) modified retrospective adoption, meaning the cumulative effect of applying ASU 2014-09 is recognized as an adjustment to the opening retained earnings balance. The Company is in the process of determining the adoption method as well as the effects the adoption of ASU 2014-09 will have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, in conjunction with their initiative to reduce complexity in accounting standards. This new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with presentation of a debt discount. The new standard is limited to the presentation of debt issuance costs and will not affect the recognition and measurement of debt issuance costs. ASU 2015-03 will be effective for the Company for the annual period beginning after December 15, 2015 and interim periods beginning after December 15, 2016, with early adoption permitted. The adoption of ASU 2015-03 is not expected to have a material impact on the Company s consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Customer s Accounting for Fees Paid in a Cloud Computing Arrangement. Under the new standard, customers will apply the same criteria as vendors to determine whether a cloud computing arrangement contains a software license or is solely a service contract. For public companies, the new standard is effective for annual periods, including interim periods, beginning after December 15, 2015. For non-public companies, it is effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016. The adoption of ASU 2015-05 is not expected to have a material impact on the Company s consolidated financial statements.

2. Expense Classification:

Effective December 31, 2014, within the Condensed Consolidated Statements of Comprehensive Income (Loss), the Company revised its presentation of stock compensation expense. Formerly, the Company presented this expense entirely within sales, marketing and administration expense. The Company s revised presentation allocates these costs to the appropriate functional areas. Further, the Company has revised its presentation of the costs for developer time spent on customer billable professional services projects. Formerly, the Company presented this expense within product development and maintenance expense. The Company s revised presentation records these amounts to cost of sales and direct operating expense. There was no impact on total reported costs and expenses for any period as a result of the changes. Management does not believe these revisions are material to the previously issued financial statements.

13

Table of Contents

The impact of these items within the functional areas for the three months ended March 31, 2014 is as follows (in millions):

	Three Months Ended March 31, 2014			
	As reported	Revised presentation of stock compensation expense	Revised presentation of developer time spent on professional services projects	As presented in the statement of comprehensive income (loss)
Cost of sales and direct operating (See Note 1)	$ 263	$ 1	$ 5	$ 269
Sales, marketing and administration	170	(2)		168
Product development and maintenance	103	1	(5)	99
Total functional expenses	$ 536	$	$	$ 536

3. Discontinued Operations:

On January 31, 2014, the Company completed the sale of two small businesses within the FS segment in exchange for 27 million paid at closing, 9 million to be paid no later than March 2016 (deferred purchase price) and 2 million to be paid upon the successful assignment of certain customer contracts. The deferred purchase price is unconditional and is secured by a bank guarantee. During the first quarter of 2015, the Company successfully assigned certain of these customer contracts and recognized a $2 million gain in discontinued operations. Also included in discontinued operations are the results of our former AS business as a result of the AS Split-Off (see Note 1), which was completed on March 31, 2014. These businesses have been included in our financial results as discontinued operations for all periods presented.

The results for discontinued operations for the three months ended March 31, 2014 and 2015 were as follows (in millions):

	Three Months Ended March 31,	
	2014	2015
Revenue	$ 338	$
Operating income (loss)	(26)	
Interest expense	(18)	
Gain on sale of business	23	2
Income (loss) before income taxes	(21)	2
Benefit from income taxes	4	

Income (loss) from discontinued operations	$ (17)	$ 2

4. Intangible Assets and Goodwill:

Goodwill

The following table summarizes the changes in goodwill, by segment, for the three months ended March 31, 2015 (in millions):

	Cost			Accumulated impairment	
	FS	PS&E	Subtotal	PS&E	Total
Balance at December 31, 2014	$ 3,433	$ 544	$ 3,977	$ (217)	$ 3,760
2015 acquisitions	2		2		2
Effect of foreign currency translation	(50)		(50)		(50)
Other	(1)		(1)		(1)
Balance at March 31, 2015	$ 3,384	$ 544	$ 3,928	$ (217)	$ 3,711

A portion of the Company s goodwill is denominated in currencies other than the U.S. Dollar.

Table of Contents

Intangible Asset amortization

The total expected amortization of acquisition-related intangible assets for years ended December 31 is as follows (in millions):

2015	$ 84
2016	68
2017	60
2018	55
2019	48

5. Accumulated Other Comprehensive Income:

The following table provides a rollforward of the components of accumulated other comprehensive loss, net of tax, for the three months ended March 31, 2015 (in millions):

	Gains and Losses on Cash Flow Hedges	Currency Translation	Other	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2014	$ (1)	$ (125)	$ (6)	$ (132)
Other comprehensive loss before reclassifications	(9)	(67)		(76)
Amounts reclassified from accumulated other comprehensive income, net of tax	5			5
Net current-period other comprehensive loss	(4)	(67)		(71)
Balance at March 31, 2015	$ (5)	$ (192)	$ (6)	$ (203)

The following table summarizes the unrealized gains (losses) on derivative instruments, including the impact of components reclassified into net income from accumulated other comprehensive income, for the three months ended March 31, 2014 and 2015 (in millions):

	Three months ended March 31,		Affected Line Item in the Statement of Comprehensive Income (Loss) for Components Reclassified from OCI
Other Comprehensive Income (Loss) Components	2014	**2015**	
Unrealized gain (loss) on derivative instruments	$ 2	**$ (9)**	

Loss (gain) on derivatives reclassified into income:			
Interest rate contracts	2	**2**	Interest expense and amortization of deferred financing fees
Forward currency hedges	(1)	**1**	Cost of sales and direct operating
Total reclassified into income	1	**3**	
Income tax benefit		**2**	
Amounts reclassified from accumulated other comprehensive income, net of tax	1	**5**	
Unrealized gain (loss) on derivative instruments, net of tax	$ 3	**$ (4)**	

6. Debt and Derivatives:

On March 31, 2015, the Company had $593 million of available borrowing capacity and $7 million of outstanding letters of credit under its $600 million revolving credit facility. In addition, there were $4 million of letters of credit outstanding at March 31, 2015 that did not impact availability under the revolving credit facilities.

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

Table of Contents

Debt consisted of the following (in millions):

	December 31, 2014	**March 31, 2015**
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		**1**
Total debt	$ 4,669	**$ 4,670**
Short-term borrowings and current portion of long-term debt	$	**$ 1**
Long-term debt	4,669	**4,669**
Total debt	$ 4,669	**$ 4,670**

Future Maturities

At March 31, 2015, the contractual future maturities of debt are as follows (in millions):

	Contractual Maturities
2015	$ 1
2016	
2017	400
2018	511
2019	1,140
Thereafter	2,618
Total debt	$ 4,670

SunGard uses interest rate swaps to manage the amount of its floating rate debt in order to reduce its exposure to variable rate interest payments associated with the Amended and Restated Credit Agreement (Credit Agreement).

Each swap agreement is designated as a cash flow hedge. SunGard pays a stream of fixed interest payments for the term of the swap, and in turn, receives variable interest payments based on LIBOR. At March 31, 2015, one-month and three-month LIBOR were 0.18% and 0.27%, respectively. The net receipt or payment from the interest rate swap agreements is included in the Condensed Consolidated Statements of Comprehensive Income (Loss) as interest expense. The interest rates in the components of the debt table above reflect the impact of the swaps.

A summary of the Company s interest rate swaps at March 31, 2015 follows (in millions):

Inception	Maturity	Notional amount (in millions)	Weighted-average Interest rate paid	Interest rate received (LIBOR)
August-September 2012	February 2017	$ 400	0.69%	1-Month
June 2013	June 2019	100	1.86%	3-Month
September 2013	June 2019	100	2.26%	3-Month
February-March 2014	March 2020	300	2.27%	3-Month
Total / Weighted-Average Interest Rate		$ 900	1.52%	

The fair values of the swap agreements at December 31, 2014 were $1 million and $5 million and were included in other assets and other accrued expenses, respectively. The fair value of the swap agreements at March 31, 2015 is $10 million and is included in other accrued expenses.

Table of Contents

The Company has no ineffectiveness related to its swap agreements. During the next twelve months, the Company expects to reclassify approximately $8 million from accumulated other comprehensive income (loss) into earnings related to the Company s interest rate swaps based on the borrowing rates at March 31, 2015.

7. Fair Value Measurements:

Accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under this guidance, the Company is required to classify certain assets and liabilities based on the following fair value hierarchy:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date;

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 Unobservable inputs for the asset or liability.

The following table summarizes assets and liabilities measured at fair value on a recurring basis at March 31, 2015 (in millions):

		Fair Value Measures Using			
	Balance Sheet Caption	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Money market funds	Cash and cash equivalents	$ 60	$	$	$ 60
Currency forward contracts	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.

Table of Contents

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

Table of Contents

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

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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.

Supplemental Condensed Consolidating Balance Sheet
December 31, 2014

(in millions)

	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.

Table of Contents

(in millions)	Supplemental Condensed Consolidating Balance Sheet March 31, 2015				
	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.

Table of Contents

Supplemental Condensed Consolidating Schedule of Comprehensive Income (Loss)

(in millions) **Three Months Ended March 31, 2014**

	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)

(in millions)

Three Months Ended March 31, 2015

	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)

Table of Contents

(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.

Table of Contents

(in millions)

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

	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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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)		Year over Year Change	
	Three Months Ended March 31,			Constant
	2014	2015	Reported	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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

(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

Table of Contents

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.

Table of Contents

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.
32.2	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(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.
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.

Table of Contents

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)

Table of Contents

EXHIBIT INDEX

Exhibit No.	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.
32.2	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(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.
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.