

SS&C Technologies Holdings Inc
Form 10-Q
August 04, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

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 001-34675

SS&C TECHNOLOGIES HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware 71-0987913
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

80 Lambertson Road

Windsor, CT 06095

(Address of principal executive offices, including zip code)

860-298-4500

(Registrant's telephone number, including area code)

Edgar Filing: SS&C Technologies Holdings Inc - Form 10-Q

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

Indicate by check mark whether the registrant 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 205,427,232 shares of the registrant’s common stock outstanding as of July 28, 2017.

SS&C TECHNOLOGIES HOLDINGS, INC.

INDEX

	Page Number
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets at June 30, 2017 and December 31, 2016</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	27
<u>Item 4. Controls and Procedures</u>	28
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	28
<u>Item 6. Exhibits</u>	28
<u>SIGNATURE</u>	29
<u>EXHIBIT INDEX</u>	30

This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words “believes”, “anticipates”, “plans”, “expects”, “estimates”, “projects”, “forecasts”, “may”, “assume”, “intend”, “will”, “continue”, “opportunity”, “predict”, “potential”, “future”, “guarant”, “indicate”, “would”, “could” and “should” and similar expressions are intended to identify forward-looking statements. The important factors discussed under the caption “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission on February 28, 2017, among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. The Company does not undertake an obligation to update its forward-looking statements to reflect future events or circumstances.

Explanatory Note

Edgar Filing: SS&C Technologies Holdings Inc - Form 10-Q

On June 24, 2016, SS&C Technologies Holdings, Inc. completed a two-for-one stock split, effective in the form of a stock dividend. All share and per share amounts (other than for the Company's Class A non-voting common stock) have been retroactively restated for all periods presented to reflect the stock split.

PART I

Item 1. Financial Statements

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data) (Unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$90,370	\$ 117,558
Accounts receivable, net of allowance for doubtful accounts of \$8,553 and \$5,944, respectively	235,811	241,307
Prepaid expenses and other current assets	32,875	31,119
Prepaid income taxes	18,032	23,012
Restricted cash	1,880	2,116
Total current assets	378,968	415,112
Property, plant and equipment:		
Land	2,655	2,655
Building and improvements	59,455	42,749
Equipment, furniture, and fixtures	135,087	120,011
	197,197	165,415
Less: accumulated depreciation	(96,289)	(85,020)
Net property, plant and equipment	100,908	80,395
Deferred income taxes	2,136	2,410
Goodwill (Note 3)	3,676,586	3,652,733
Intangible and other assets, net of accumulated amortization of \$842,241 and \$730,234, respectively	1,459,803	1,556,321
Total assets	\$5,618,401	\$ 5,706,971
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 2)	\$37,183	\$ 126,144
Accounts payable	32,668	16,490
Income taxes payable	—	3,473
Accrued employee compensation and benefits	60,846	104,118
Interest payable	16,156	21,470
Other accrued expenses	43,044	53,708
Deferred revenue	234,077	235,222
Total current liabilities	423,974	560,625

Edgar Filing: SS&C Technologies Holdings Inc - Form 10-Q

Long-term debt, net of current portion (Note 2)	2,261,791	2,374,986
Other long-term liabilities	81,770	59,227
Deferred income taxes	432,688	453,555
Total liabilities	3,200,223	3,448,393
Commitments and contingencies (Note 8)		
Stockholders' equity (Note 5):		
Preferred stock, \$0.01 par value per share, 5,000,000 shares authorized; no shares issued	—	—
Class A non-voting common stock, \$0.01 par value per share, 5,000,000 shares authorized;		
no shares issued	—	—
Common stock, \$0.01 par value per share, 400,000,000 shares authorized; 206,859,755 shares		
and 204,616,054 shares issued, respectively, and 205,286,416 shares and 203,042,715 shares		
outstanding, respectively, of which 4,626 and 11,252 are unvested, respectively	2,069	2,046
Additional paid-in capital	1,975,311	1,921,256
Accumulated other comprehensive loss	(107,328)	(139,073)
Retained earnings	566,126	492,349
	2,436,178	2,276,578
Less: cost of common stock in treasury, 1,573,339 shares	(18,000)	(18,000)
Total stockholders' equity	2,418,178	2,258,578
Total liabilities and stockholders' equity	\$5,618,401	\$ 5,706,971

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

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Software-enabled services	\$272,518	\$244,672	\$548,970	\$450,319
Maintenance and term licenses	113,614	103,392	224,171	198,512
Total recurring revenues	386,132	348,064	773,141	648,831
Perpetual licenses	3,822	5,039	6,650	10,254
Professional services	21,026	19,974	38,888	38,123
Total non-recurring revenues	24,848	25,013	45,538	48,377
Total revenues	410,980	373,077	818,679	697,208
Cost of revenues:				
Software-enabled services	158,888	146,243	312,894	259,971
Maintenance and term licenses	47,280	46,460	94,265	93,406
Total recurring cost of revenues	206,168	192,703	407,159	353,377
Perpetual licenses	650	643	1,215	1,141
Professional services	16,874	17,133	32,777	32,645
Total non-recurring cost of revenues	17,524	17,776	33,992	33,786
Total cost of revenues	223,692	210,479	441,151	387,163
Gross profit	187,288	162,598	377,528	310,045
Operating expenses:				
Selling and marketing	30,121	28,535	60,363	58,396
Research and development	39,079	40,827	77,528	77,274
General and administrative	28,103	27,199	59,935	57,894
Total operating expenses	97,303	96,561	197,826	193,564
Operating income	89,985	66,037	179,702	116,481
Interest expense, net	(26,295)	(32,846)	(55,315)	(65,935)
Other (expense) income, net	(1,197)	12	(1,268)	(1,835)
Loss on extinguishment of debt	—	—	(2,326)	—
Income before income taxes	62,493	33,203	120,793	48,711
Provision for income taxes	11,342	4,982	21,495	13,485
Net income	\$51,151	\$28,221	\$99,298	\$35,226
Basic earnings per share				
Basic earnings per share	\$0.25	\$0.14	\$0.49	\$0.18
Diluted earnings per share				
Diluted earnings per share	\$0.24	\$0.14	\$0.47	\$0.17
Basic weighted average number of common shares outstanding				
Basic weighted average number of common shares outstanding	204,550	198,765	203,966	198,143
Diluted weighted average number of common and common equivalent shares outstanding				
Diluted weighted average number of common and common equivalent shares outstanding	211,299	204,916	210,478	204,596

Edgar Filing: SS&C Technologies Holdings Inc - Form 10-Q

Cash dividends declared and paid per common share	\$0.0625	\$0.0625	\$0.1250	\$0.1250
Net income	\$51,151	\$28,221	\$99,298	\$35,226
Other comprehensive income (loss), net of tax:				
Foreign currency exchange translation adjustment	20,966	(26,793)	31,745	(17,472)
Total comprehensive income (loss), net of tax	20,966	(26,793)	31,745	(17,472)
Comprehensive income	\$72,117	\$1,428	\$131,043	\$17,754

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

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flow from operating activities:		
Net income	\$99,298	\$35,226
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	117,213	113,440
Stock-based compensation expense	21,278	27,913
Income tax benefit related to exercise of stock options	—	(23,760)
Amortization and write-offs of loan origination costs	5,281	5,312
Loss on extinguishment of debt	963	—
Loss on sale or disposition of property and equipment	12	150
Deferred income taxes	(14,970)	(24,056)
Provision for doubtful accounts	3,218	1,257
Changes in operating assets and liabilities, excluding effects from acquisitions:		
Accounts receivable	3,411	(13,458)
Prepaid expenses and other assets	(1,326)	(1,516)
Accounts payable	14,895	7,870
Accrued expenses	(54,543)	(25,851)
Income taxes prepaid and payable	2,562	23,757
Deferred revenue	(3,471)	13,052
Net cash provided by operating activities	193,821	139,336
Cash flow from investing activities:		
Additions to property and equipment	(19,368)	(13,593)
Proceeds from sale of property and equipment	1	43
Cash paid for business acquisitions, net of cash acquired	1,805	(317,554)
Additions to capitalized software	(5,636)	(3,306)
Purchase of long-term investment	—	(1,000)
Net cash used in investing activities	(23,198)	(335,410)
Cash flow from financing activities:		
Cash received from debt borrowings	45,000	—
Repayments of debt	(253,400)	(155,325)
Proceeds from exercise of stock options	35,855	19,212
Withholding taxes related to equity award net share settlement	(3,057)	(4,615)
Income tax benefit related to exercise of stock options	—	23,760
Purchase of common stock for treasury	—	(11)
Payment of fees related to refinancing activities	—	(222)
Dividends paid on common stock	(25,521)	(24,790)
Net cash used in financing activities	(201,123)	(141,991)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	3,076	(872)
Net decrease in cash, cash equivalents and restricted cash	(27,424)	(338,937)
Cash, cash equivalents and restricted cash, beginning of period	119,674	436,977
Cash, cash equivalents and restricted cash, end of period	\$92,250	\$98,040

Supplemental disclosure of non-cash activities:

Property and equipment acquired through tenant improvement allowances	\$10,846	\$—
---	----------	-----

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

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1—Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). These accounting principles were applied on a basis consistent with those of the audited Consolidated Financial Statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission (the “SEC”) on February 28, 2017 (the “2016 Form 10-K”). In the opinion of the Company, the accompanying unaudited Condensed Consolidated Financial Statements contain all adjustments (consisting of only normal recurring adjustments, except as noted elsewhere in the notes to the Condensed Consolidated Financial Statements) necessary for a fair statement of its financial position as of June 30, 2017, the results of its operations for the three and six months ended June 30, 2017 and 2016 and its cash flows for the six months ended June 30, 2017 and 2016. Certain prior year balances have been reclassified to conform to the current year presentation. Such reclassifications did not affect total revenues, operating income or net income. These statements do not include all of the information and footnotes required by GAAP for annual financial statements. The Condensed Consolidated Financial Statements contained herein should be read in conjunction with the audited Consolidated Financial Statements and footnotes as of and for the year ended December 31, 2016, which were included in the 2016 Form 10-K. The December 31, 2016 Consolidated Balance Sheet data were derived from audited financial statements but do not include all disclosures required by GAAP for annual financial statements. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the expected results for any subsequent quarters or the full year.

Recently Adopted Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-18, Statement of Cash Flows: Restricted Cash. This ASU provides guidance on the classification of restricted cash in the statement of cash flows. This ASU requires that restricted cash be included within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for the Company for its first quarter of fiscal 2018. Early adoption is permitted and the guidance requires application using a retrospective method. The Company has early adopted ASU 2016-18, which did not have a material impact on the Company’s financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU was intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for the Company for its first quarter of fiscal 2017. Effective January 1, 2017, excess tax benefits will be prospectively reported as an operating activity in the Company’s Condensed Consolidated Statements of Cash Flows. As the Company has applied this guidance prospectively as of January 1, 2017, excess tax benefits for the six months ended June 30, 2016 will not be adjusted and continue to be reported in financing activities in the Condensed Consolidated Statements of Cash Flows. As a result of the adoption, the Company recognized discrete tax benefits of \$5.0 million and \$10.1 million in the provision for income taxes line of the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 related to excess tax benefits upon vesting of a restricted-stock award or stock

option exercise event relative to the deferred tax asset position established. The Company has elected to account for forfeitures as they occur and there was no material effect recorded upon adoption of this change. The Company has also excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of the Company's diluted earnings per share for the three and six months ended June 30, 2017, which had the effect of increasing the weighted average common stock equivalents. Prior to the adoption of ASU 2016-09, the Company included excess tax benefits in assessing whether common equivalent shares were dilutive in the Company's calculations of weighted average dilutive shares under the treasury stock method. Presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to all periods presented as such cash flows have historically been presented as financing activities.

Recent Accounting Pronouncements Not Yet Effective

In January 2017, the FASB issued ASU 2017-04, Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 of the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. As a result of ASU 2017-04, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and then recognize an impairment charge, as necessary, for the amount by which the carrying amount exceeds the reporting

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for fiscal years and interim periods within those years beginning after December 15, 2019, and early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The Company expects to adopt ASU 2017-04 for the Company's goodwill impairment tests in 2017.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash flow, and other Topics. ASU 2016-15 is effective for the Company for its first quarter of fiscal 2018 and the guidance requires application using a retrospective method. The impact of the Company's adoption of ASU 2016-15 to the Company's Condensed Consolidated Financial Statements will be to reflect the presentation of debt prepayment or debt extinguishment costs as cash outflows for financing activities within the Company's Condensed Consolidated Statement of Cash Flows. This ASU is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires a consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for the Company for its first quarter of fiscal 2020 and earlier adoption is permitted beginning in the first quarter of fiscal 2019. Application of the ASU is through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently evaluating the impact of the pending adoption of ASU 2016-13 on the Company's Condensed Consolidated Financial Statements. This ASU is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU would require lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date; (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting is largely unchanged under the amendments of this ASU. Additional disclosures will be required to allow the user to assess the amount, timing and uncertainty of cash flows arising from leasing activities. A modified retrospective transition approach is required for leases existing at the time of adoption. ASU 2016-02 is effective for the Company for its first quarter of fiscal 2019 and earlier adoption is permitted. The impact of the Company's adoption of ASU 2016-02 to the Company's Condensed Consolidated Financial Statements will be to recognize the majority of the Company's operating lease commitments as operating lease liabilities and right-of-use assets upon adoption, which will result in a material increase in the assets and liabilities recorded on the Company's Condensed Consolidated Balance Sheet. The Company is continuing its assessment, which may identify additional impacts this ASU will have on the Company's Condensed Consolidated Financial Statements and related disclosures and internal controls over financial reporting.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The objective of ASU 2014-09 is to clarify the principles for recognizing revenue by removing inconsistencies and weaknesses in revenue requirements; providing a more robust framework for addressing revenue issues; improving comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; and providing more useful information to users of financial statements through improved revenue disclosure requirements. On August 12, 2015,

the FASB issued ASU 2015-14, deferring the effective date by one year for ASU 2014-09. ASU 2014-09 is effective for the Company for its first quarter of 2018, with early adoption permitted for annual periods beginning after December 15, 2016. The new standard is required to be applied retrospectively to each prior reporting period presented or as a cumulative effect adjustment on the date of initial application.

Subsequent to the issuance of ASU 2014-09, the FASB has issued the following updates: ASU 2016-08, Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations (Reporting Revenue Gross versus Net); ASU 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing; ASU 2016-12, Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients and ASU 2016-20, Revenue from Contracts with Customers (Topic 606) – Technical Corrections and Improvements to Topic 606. The amendments in these updates affect the guidance contained within ASU 2014-09.

The new revenue standard is expected to change the revenue recognition practices for the Company's term software license arrangements. More specifically, the Company does not expect that the license component of the Company's term license arrangements will be recognized ratably over the contractual term. The Company is continuing its assessment, which may identify additional impacts this ASU will have on the Company's Condensed Consolidated Financial Statements and related disclosures and

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

internal controls over financial reporting. The Company intends to adopt the new revenue standard effective January 1, 2018 using the modified retrospective approach.

Note 2—Debt

At June 30, 2017 and December 31, 2016, debt consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Senior secured credit facilities, weighted-average interest rate of 3.41% and 3.94%, respectively	\$ 1,751,225	\$ 1,865,625
5.875% senior notes due 2023	600,000	600,000
Senior secured credit facilities revolving portion, weighted-average interest rate of 0.00% and 3.50%, respectively	—	94,000
Unamortized original issue discount and debt issuance costs	(52,251)	(58,495)
	2,298,974	2,501,130
Less current portion of long-term debt	37,183	126,144
Long-term debt	\$ 2,261,791	\$ 2,374,986

On March 2, 2017, the Company entered into an amendment (the “Amendment”) to the Company’s senior secured credit agreement dated July 8, 2015. Pursuant to the Amendment, the highest (non-default) interest rate margin applicable to Term Loan A was reduced from LIBOR plus 2.75% to LIBOR plus 1.75%, and the highest (non-default) interest rate margin applicable to Term Loan B was reduced from LIBOR plus 3.25% to LIBOR plus 2.25%. The LIBOR “floor” was also amended for the Term Loan A and the Term Loan B to be 0%. Subject to certain exceptions, in the event the Company and/or its subsidiaries enters into a transaction within six months from the Amendment Effective Date, the effect of which is to lower the “effective yield” of all or a portion of either the Term Loan A or the Term Loan B, the Company will pay to the applicable lenders a 1% prepayment premium on the loans subject to such transaction. No changes were made to the financial covenants, outstanding principal amounts or the scheduled amortization.

The Amendment was evaluated in accordance with FASB Accounting Standards Codification 470-50, Debt-Modifications and

Extinguishments, for debt modification and extinguishment accounting. The Company accounted for the debt re-pricing as a debt modification with respect to amounts that remained obligations of the same lender in the syndicate with minor changes in cash flows and as a debt extinguishment with respect to amounts that were obligations of lenders that exited the syndicate or remained in the syndicate but experienced a change in cash flows of greater than 10%. See Loss on extinguishment of debt section below.

Loss on extinguishment of debt. The Company recorded a \$2.3 million loss on extinguishment of debt in the three months ended March 31, 2017 in connection with the Amendment. The loss on early extinguishment of debt includes the write-off of a portion of the unamortized capitalized financing fees related to the senior secured credit facility for amounts accounted for as a debt extinguishment, as well as new financing fees related to the senior secured credit facility for amounts accounted for as a debt modification.

Fair value of debt. The carrying amounts and fair values of financial instruments are as follows (in thousands):

	June 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Senior secured credit facilities	\$1,751,225	\$1,756,679	\$1,865,625	\$1,887,043
5.875% senior notes due 2023	600,000	639,126	600,000	619,500
Senior secured credit facilities, revolving portion	—	—	94,000	93,883

The above fair values, which are Level 2 liabilities, were computed based on comparable quoted market prices. The fair values of cash, accounts receivable, net, short-term borrowings, and accounts payable approximate the carrying amounts due to the short-term maturities of these instruments.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

Note 3—Goodwill

The change in carrying value of goodwill as of and for the six months ended June 30, 2017 is as follows (in thousands):

Balance at December 31, 2016	\$3,652,733
Adjustments to prior acquisitions	(621)
Effect of foreign currency translation	24,474
Balance at June 30, 2017	\$3,676,586

Note 4—Earnings per Share

Earnings per share (“EPS”) is calculated in accordance with the relevant standards. Basic EPS includes no dilution and is computed by dividing net income available to the Company’s common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS is computed by dividing net income by the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares consist of stock options, stock appreciation rights (“SARs”), restricted stock units (“RSUs”) and restricted stock awards (“RSAs”) using the treasury stock method. Common equivalent shares are excluded from the computation of diluted earnings per share if the effect of including such common equivalent shares is anti-dilutive because their total assumed proceeds exceed the average fair value of common stock for the period.

The following table sets forth the computation of basic and diluted EPS (in thousands, except per share amounts):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	51,151	28,221	99,298	35,226
Shares:				
Weighted average common shares outstanding — used in calculation of basic EPS	204,550	198,765	203,966	198,143
Weighted average common stock equivalents — options and restricted shares	6,749	6,151	6,512	6,453
Weighted average common and common equivalent shares outstanding — used in calculation of diluted EPS	211,299	204,916	210,478	204,596

Edgar Filing: SS&C Technologies Holdings Inc - Form 10-Q

Earnings per share - Basic	\$0.25	\$0.14	\$0.49	\$0.18
Earnings per share - Diluted	\$0.24	\$0.14	\$0.47	\$0.17

9

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

Weighted average stock options, SARs, RSUs and RSAs representing 11,207,110 and 7,304,581 shares were outstanding for the three months ended June 30, 2017 and 2016, respectively, and weighted average stock options, SARs, RSUs and RSAs representing 11,899,739 and 7,075,350 for six months ended June 30, 2017 and 2016 but were not included in the computation of diluted EPS because the effect of including them would be anti-dilutive.

Dividends. In 2017, the Company paid a quarterly cash dividend of \$0.0625 per share of common stock on March 15, 2017 and June 15, 2017 to stockholders of record as of the close of business on March 1, 2017 and June 1, 2017, totaling \$25.5 million. In 2016, the Company paid a quarterly cash dividend of \$0.0625 per share of common stock on March 15, 2016 and June 15, 2016 to stockholders of record as of the close of business on March 7, 2016 and June 1, 2016, totaling \$24.8 million.

Note 5—Equity and Stock-based Compensation

Total stock options, SARs, RSUs and RSAs. The amount of stock-based compensation expense recognized in the Company's Condensed Consolidated Statements of Comprehensive Income for three and six months ended June 30, 2017 and 2016 was as follows (in thousands):

Consolidated Statements of Comprehensive Income Classification	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of software-enabled services	\$2,893	\$2,779	\$5,622	\$5,184
Cost of maintenance and term licenses	523	700	1,087	1,511
Cost of recurring revenues	3,416	3,479	6,709	6,695
Cost of professional services	588	599	1,130	1,243
Cost of non-recurring revenues	588	599	1,130	1,243
Total cost of revenues	4,004	4,078	7,839	7,938
Selling and marketing	2,490	2,860	5,163	6,445
Research and development	1,718	2,182	3,705	4,398
General and administrative	2,166	3,446	4,571	9,132
Total operating expenses	6,374	8,488	13,439	19,975
Total stock-based compensation expense	\$10,378	\$12,566	\$21,278	\$27,913

The following table summarizes stock option and SAR activity as of and for the six months ended June 30, 2017:

	Shares
Outstanding at December 31, 2016	25,028,100
Granted	5,098,978
Cancelled/forfeited	(819,662)
Exercised	(2,351,774)
Outstanding at June 30, 2017	26,955,642

The following table summarizes RSU activity as of and for the six months ended June 30, 2017:

	Shares
Outstanding at December 31, 2016	357,292
Granted	-
Cancelled/forfeited	(14,798)
Vested	(136,900)
Outstanding at June 30, 2017	205,594

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

Note 6—Income Taxes

The effective tax rate was 18% and 15% for the three months ended June 30, 2017 and 2016, respectively, and the effective tax rate was 18% and 28% for the six months ended June 30, 2017 and 2016, respectively. The change in the effective tax rate for the three months ended June 30, 2017 was primarily due to an increase in pre-tax income from domestic operations taxed at a high statutory rate, partially offset by the recognition of windfall tax benefits from stock awards as a component of the income tax provision in the current quarter. The change in the effective tax rate for the six months ended June 30, 2017 was primarily due to the recognition of windfall tax benefits from stock awards in the current year as a component of the income tax provision and the absence of the unfavorable impact of a change in state apportionment on the Company's domestic deferred tax liabilities as a result of the acquisition of Citigroup AIS in the first quarter of 2016, partially offset by the unfavorable impact from an increase in pre-tax income from domestic operations taxed at a high statutory rate.

Note 7—Acquisitions

The following unaudited pro forma condensed consolidated results of operations are provided for illustrative purposes only and assume that the acquisitions of Conifer Financial Services LLC (“Conifer”), Wells Fargo's Global Fund Services business (“GFS”) and Citigroup's Alternative Investor Services business occurred on January 1, 2015. This unaudited pro forma information (in thousands, except per share data) should not be relied upon as being indicative of the historical results that would have been obtained if the acquisitions had actually occurred on that date, nor of the results that may be obtained in the future.

	For the Three Months Ended June 30, 2016	For the Six Months Ended June 30, 2016
Revenues	\$403,640	\$808,940
Net income	\$32,801	\$50,164
Basic EPS	\$0.17	\$0.25
Diluted EPS	\$0.16	\$0.25
Basic weighted average number of common shares outstanding	198,765	198,143
Diluted weighted average number of common and common equivalent shares outstanding	204,916	204,596

During the first half of 2017, the Company received cash purchase price adjustments totaling \$1.8 million related to the acquisitions of Conifer and GFS. This amount is reflected in “Cash paid for business acquisitions, net of cash acquired” for the six months ended June 30, 2017 on the Company’s Condensed Consolidated Statement of Cash Flows.

Note 8—Commitments and Contingencies

From time to time, the Company is subject to legal proceedings and claims. In the opinion of the Company's management, the Company is not involved in any litigation or proceedings that would have a material adverse effect on the Company or its business.

Note 9—Supplemental Guarantor Financial Statements

On July 8, 2015, the Company issued \$600.0 million aggregate principal amount of 5.875% Senior Notes due 2023 (the “Senior Notes”). The Senior Notes are jointly and severally and fully and unconditionally guaranteed, in each case subject to certain customary release provisions, by substantially all wholly-owned domestic subsidiaries of the Company that guarantee the Company’s Amended Senior Secured Credit Agreement (collectively “Guarantors”). All of the Guarantors are 100% owned by the Company. All other subsidiaries of the Company, either direct or indirect, do not guarantee the Senior Notes (“Non-Guarantors”). The Guarantors also unconditionally guarantee the Amended Senior Secured Credit Agreement. There are no significant restrictions on the ability of the Company or any of the subsidiaries that are Guarantors to obtain funds from its subsidiaries by dividend or loan. During the three months ended March 31, 2017, the Company added certain U.S. subsidiaries as Guarantors to the Senior Notes. The condensed consolidating balance sheet as of December 31, 2016 below reflects the addition of these entities as Guarantor Subsidiaries.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

Condensed consolidating financial information as of June 30, 2017 and December 31, 2016 and for the three and six months ended June 30, 2017 and 2016 are presented. The condensed consolidating financial information of the Company and its subsidiaries are as follows (in thousands):

	June 30, 2017			Consolidating and Eliminating Adjustments	Consolidated
	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries		
Cash and cash equivalents	\$—	\$ 18,438	\$ 71,932	\$—	\$ 90,370
Accounts receivable, net	—	168,940	66,871	—	235,811
Prepaid expenses and other current assets	—	19,803	13,072	—	32,875
Prepaid income taxes	—	16,039	1,993	—	18,032
Restricted cash	—	1,743	137	—	1,880
Net property, plant and equipment	—	62,813	38,095	—	100,908
Investment in subsidiaries	3,087,894	853,526	—	(3,941,420)	—
Intercompany receivables	—	193,625	68,418	(262,043)	—
Deferred income taxes, long-term	—	—	2,136	—	2,136
Goodwill, intangible and other assets, net	—	3,944,982	1,191,407	—	5,136,389
Total assets	\$3,087,894	\$ 5,279,909	\$ 1,454,061	\$ (4,203,463)	\$ 5,618,401
Current portion of long-term debt	—	14,432	22,751	—	37,183
Accounts payable	—	23,171	9,497	—	32,668
Accrued expenses	16,156	62,368	41,522	—	120,046
Deferred revenue	—	206,068	28,009	—	234,077
Long-term debt, net of current portion	600,000	1,377,619	284,172	—	2,261,791
Other long-term liabilities	—	47,656	34,114	—	81,770
Intercompany payables	53,560	68,418	140,065	(262,043)	—
Deferred income taxes, long-term	—	392,283	40,405	—	432,688
Total liabilities	669,716	2,192,015	600,535	(262,043)	3,200,223
Total stockholders' equity	2,418,178	3,087,894	853,526	(3,941,420)	2,418,178
Total liabilities and stockholders' equity	\$3,087,894	\$ 5,279,909	\$ 1,454,061	\$ (4,203,463)	\$ 5,618,401

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

	December 31, 2016				
	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Cash and cash equivalents	\$—	\$ 33,723	\$ 83,835	\$—	\$ 117,558
Accounts receivable, net	—	174,927	66,380	—	241,307
Prepaid expenses and other current assets	—	18,129	12,990	—	31,119
Prepaid income taxes	—	21,600	1,412	—	23,012
Restricted cash	—	1,788	328	—	2,116
Net property, plant and equipment	—	42,358	38,037	—	80,395
Investment in subsidiaries	2,910,669	769,716	—	(3,680,385)	—
Intercompany receivables	—	162,791	39,894	(202,685)	—
Deferred income taxes, long-term	—	—	2,410	—	2,410
Goodwill, intangible and other assets, net	—	4,021,445	1,187,609	—	5,209,054
Total assets	\$2,910,669	\$ 5,246,477	\$ 1,432,895	\$ (3,883,070)	\$ 5,706,971
Current portion of long-term debt	—	108,989	17,155	—	126,144
Accounts payable	—	10,714	5,776	—	16,490
Accrued expenses	16,155	109,746	53,395	—	179,296
Income taxes payable	—	—	3,473	—	3,473
Deferred revenue	—	212,890	22,332	—	235,222
Long-term debt, net of current portion	600,000	1,416,695	358,291	—	2,374,986
Other long-term liabilities	—	29,827	29,400	—	59,227
Intercompany payables	35,936	39,894	126,855	(202,685)	—
Deferred income taxes, long-term	—	407,053	46,502	—	453,555
Total liabilities	652,091	2,335,808	663,179	(202,685)	3,448,393
Total stockholders' equity	2,258,578	2,910,669	769,716	(3,680,385)	2,258,578
Total liabilities and stockholders' equity	\$2,910,669	\$ 5,246,477	\$ 1,432,895	\$ (3,883,070)	\$ 5,706,971

	For the Three Months Ended June 30, 2017				
	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues	\$—	\$ 290,036	\$ 121,432	\$ (488)	\$ 410,980
Cost of revenues	—	150,783	73,397	(488)	223,692
Gross profit	—	139,253	48,035	—	187,288
Operating expenses:					
Selling and marketing	—	22,708	7,413	—	30,121

Edgar Filing: SS&C Technologies Holdings Inc - Form 10-Q

Research and development	—	27,227	11,852	—	39,079
General and administrative	—	19,772	8,331	—	28,103
Total operating expenses	—	69,707	27,596	—	97,303
Operating income	—	69,546	20,439	—	89,985
Interest expense, net	(8,812)	(13,018)	(4,465)	—	(26,295)
Other (expense) income, net	—	(15,448)	14,251	—	(1,197)
Earnings from subsidiaries	59,963	26,063	—	(86,026)	—
Income before income taxes	51,151	67,143	30,225	(86,026)	62,493
Provision for income taxes	—	7,180	4,162	—	11,342
Net income	\$51,151	\$ 59,963	\$ 26,063	\$ (86,026)	\$ 51,151
Other comprehensive income, net of tax:					
Foreign currency exchange translation adjustment	20,966	20,966	18,898	(39,864)	20,966
Comprehensive income	\$72,117	\$ 80,929	\$ 44,961	\$ (125,890)	\$ 72,117

13

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

For the Three Months Ended June 30, 2016

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues	\$—	\$ 257,316	\$ 116,184	\$ (423)	\$ 373,077
Cost of revenues	—	138,262	72,640	(423)	210,479
Gross profit	—	119,054	43,544	—	162,598
Operating expenses:					
Selling and marketing	—	21,118	7,417	—	28,535
Research and development	—	28,853	11,974	—	40,827
General and administrative	—	18,602	8,597	—	27,199
Total operating expenses	—	68,573	27,988	—	96,561
Operating income	—	50,481	15,556	—	66,037
Interest expense, net	(8,813)	(17,548)	(6,485)	—	(32,846)
Other (expense) income, net	—	(17,617)	17,629	—	12
Earnings from subsidiaries	37,034	23,523	—	(60,557)	—
Income before income taxes	28,221	38,839	26,700	(60,557)	33,203
Provision for income taxes	—	1,805	3,177	—	4,982
Net income	\$28,221	\$ 37,034	\$ 23,523	\$ (60,557)	\$ 28,221
Other comprehensive loss, net of tax:					
Foreign currency exchange translation adjustment	(26,793)	(26,793)	(27,221)	54,014	(26,793)
Comprehensive income (loss)	\$1,428	\$ 10,241	\$ (3,698)	\$ (6,543)	\$ 1,428

For the Six Months Ended June 30, 2017

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues	\$—	\$ 576,069	\$ 243,532	\$ (922)	\$ 818,679
Cost of revenues	—	295,539	146,534	(922)	441,151
Gross profit	—	280,530	96,998	—	377,528
Operating expenses:					
Selling and marketing	—	45,334	15,029	—	60,363
Research and development	—	54,396	23,132	—	77,528

Edgar Filing: SS&C Technologies Holdings Inc - Form 10-Q

General and administrative	—	42,380	17,555	—	59,935
Total operating expenses	—	142,110	55,716	—	197,826
Operating income	—	138,420	41,282	—	179,702
Interest expense, net	(17,626)	(28,020)	(9,669)	—	(55,315)
Other (expense) income, net	—	(33,179)	31,911	—	(1,268)
Loss on extinguishment of debt	—	(1,743)	(583)	—	(2,326)
Earnings from subsidiaries	116,924	54,692	—	(171,616)	—
Income before income taxes	99,298	130,170	62,941	(171,616)	120,793
Provision for income taxes	—	13,246	8,249	—	21,495
Net income	\$ 99,298	\$ 116,924	\$ 54,692	\$ (171,616)	\$ 99,298
Other comprehensive income, net of tax:					
Foreign currency exchange translation adjustment	31,745	31,745	29,007	(60,752)	31,745
Comprehensive income	\$ 131,043	\$ 148,669	\$ 83,699	\$ (232,368)	\$ 131,043

14

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

For the Six Months Ended June 30, 2016

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues	\$—	\$ 476,305	\$ 221,768	\$ (865)	\$ 697,208
Cost of revenues	—	251,764	136,264	(865)	387,163
Gross profit	—	224,541	85,504	—	310,045
Operating expenses:					
Selling and marketing	—	43,865	14,531	—	58,396
Research and development	—	54,218	23,056	—	77,274
General and administrative	—	41,081	16,813	—	57,894
Total operating expenses	—	139,164	54,400	—	193,564
Operating income	—	85,377	31,104	—	116,481
Interest expense, net	(17,461)	(35,466)	(13,008)	—	(65,935)
Other (expense) income, net	—	(32,017)	30,182	—	(1,835)
Earnings from subsidiaries	52,687	41,360	—	(94,047)	—
Income before income taxes	35,226	59,254	48,278	(94,047)	48,711
Provision for income taxes	—	6,567	6,918	—	13,485
Net income	\$35,226	\$ 52,687	\$ 41,360	\$ (94,047)	\$ 35,226
Other comprehensive loss, net of tax:					
Foreign currency exchange translation adjustment	(17,472)	(17,472)	(22,449)	39,921	(17,472)
Comprehensive income	\$17,754	\$ 35,215	\$ 18,911	\$ (54,126)	\$ 17,754

15

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

For the Six Months Ended June 30, 2017

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Cash Flow from Operating Activities:					
Net income	\$99,298	\$ 116,924	\$ 54,692	\$ (171,616)	\$ 99,298
Non-cash adjustments	—	100,927	32,068	—	132,995
Intercompany transactions	17,626	4,012	(21,638)	—	—
Earnings from subsidiaries	(116,924)	(54,692)	—	171,616	—
Changes in operating assets and liabilities	—	(33,169)	(5,303)	—	(38,472)
Net cash provided by operating activities	—	134,002	59,819	—	193,821
Cash Flow from Investment Activities:					
Additions to property and equipment	—	(16,021)	(3,347)	—	(19,368)
Proceeds from sale of property and equipment	—	1	—	—	1
Cash paid for business acquisitions, net of cash acquired	—	1,802	3	—	1,805
Additions to capitalized software	—	(4,078)	(1,558)	—	(5,636)
Net cash used in investing activities	—	(18,296)	(4,902)	—	(23,198)
Cash Flow from Financing Activities:					
Cash received from debt borrowings	—	45,000	—	—	45,000
Repayments of debt	—	(183,200)	(70,200)	—	(253,400)
Transactions involving Holding's common stock	—	7,279	(2)	—	7,277
Intercompany transactions	—	(115)	115	—	—
Net cash used in financing activities	—	(131,036)	(70,087)	—	(201,123)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	—	3,076	—	3,076
Net decrease in cash, cash equivalents and restricted cash	—	(15,330)	(12,094)	—	(27,424)
Cash, cash equivalents and restricted cash, beginning of period	—	35,511	84,163	—	119,674
Cash, cash equivalents and restricted cash, end of period	\$—	\$ 20,181	\$ 72,069	\$ —	\$ 92,250

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

	For the Six Months Ended June 30, 2016				
	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Cash Flow from Operating Activities:					
Net income	\$ 35,226	\$ 52,687	\$ 41,360	\$ (94,047)	\$ 35,226
Non-cash adjustments	—	70,450	29,806	—	100,256
Intercompany transactions	18,310	(11,902)	(6,408)	—	—
Earnings from subsidiaries	(52,687)	(41,360)	—	94,047	—
Changes in operating assets and liabilities	(849)	14,399	(9,696)	—	3,854
Net cash provided by operating activities	—	84,274	55,062	—	139,336
Cash Flow from Investment Activities:					
Additions to property and equipment	—	(5,080)	(8,513)	—	(13,593)
Proceeds from sale of property and equipment	—	95	(52)	—	43
Cash paid for business acquisitions, net of cash acquired	—	(219,276)	(98,278)	—	(317,554)
Additions to capitalized software	—	(1,879)	(1,427)	—	(3,306)
Purchase of long-term investment	—	(1,000)	—	—	(1,000)
Net cash used in investing activities	—	(227,140)	(108,270)	—	(335,410)
Cash Flow from Financing Activities:					
Repayments of debt	—	(115,500)	(39,825)	—	(155,325)
Transactions involving Holding's common stock	—	13,556	—	—	13,556
Intercompany transactions	—	(90,798)	90,798	—	—
Payment of fees related to refinancing activities	—	(222)	—	—	(222)
Net cash (used in) provided by financing activities	—	(192,964)	50,973	—	(141,991)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	—	(872)	—	(872)
Net decrease in cash, cash equivalents and restricted cash	—	(335,830)	(3,107)	—	(338,937)
Cash, cash equivalents and restricted cash, beginning of period	—	363,073	73,904	—	436,977
Cash, cash equivalents and restricted cash, end of period	\$ —	\$ 27,243	\$ 70,797	\$ —	\$ 98,040

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, is intended to provide readers of our Condensed Consolidated Financial Statements with the perspectives of management. It presents, in narrative form, information regarding our financial condition, results of operations, liquidity and certain other factors that may affect our future results. It should be read in conjunction with our 2016 Form 10-K and the Condensed Consolidated Financial Statements included in this Form 10-Q.

Critical Accounting Policies

Certain of our accounting policies require the application of significant judgment by our management, and such judgments are reflected in the amounts reported in our Condensed Consolidated Financial Statements. In applying these policies, our management uses its judgment to determine the appropriate assumptions to be used in the determination of estimates. Those estimates are based on our historical experience, terms of existing contracts, management’s observation of trends in the industry, information provided by our clients and information available from other outside sources, as appropriate. Actual results may differ significantly from the estimates contained in our Condensed Consolidated Financial Statements. There have been no material changes to our critical accounting estimates and assumptions or the judgments affecting the application of those estimates and assumptions since the filing of our 2016 Form 10-K. Our critical accounting policies are described in the 2016 Form 10-K and include:

- Revenue Recognition
- Long-Lived Assets, Intangible Assets and Goodwill
- Acquisition Accounting
- Stock-based Compensation
- Income Taxes

Results of Operations

We derive our revenue from two sources: recurring revenues and, to a lesser degree, non-recurring revenues. Recurring revenues consist of software-enabled services and maintenance and term licenses. As a general matter, fluctuations in our software-enabled services revenues are attributable to the number of new software-enabled services clients as well as total assets under management in our clients’ portfolios and the number of outsourced transactions provided to our existing clients. Maintenance revenues vary based on customer retention, the number of perpetual licenses and on the annual increases in fees, which are generally tied to the consumer price index, while term license revenues vary based on the rate by which we add or lose clients over time. Non-recurring revenues consist of professional services and perpetual license fees and tend to fluctuate based on the number of new licensing clients and demand for consulting services.

Revenues

The following table sets forth the percentage of our total revenues represented by each of the following sources of revenues for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Software-enabled services	66 %	65 %	67 %	65 %
Maintenance and term licenses	28	28	27	28

Edgar Filing: SS&C Technologies Holdings Inc - Form 10-Q

Total recurring revenues	94	93	94	93
Perpetual licenses	1	2	1	2
Professional services	5	5	5	5
Total non-recurring revenues	6	7	6	7
Total revenues	100%	100%	100%	100%

18

The following table sets forth revenues (dollars in thousands) and percent change in revenues for the periods indicated:

	Three Months Ended		Percent		Six Months Ended		Percent	
	June 30,	2016	Change from	Prior Period	June 30,	2016	Change from	Prior Period
Revenues:								
Software-enabled services	\$272,518	\$244,672	11	%	\$548,970	\$450,319	22	%
Maintenance and term licenses	113,614	103,392	10		224,171	198,512	13	
Total recurring revenues	386,132	348,064	11		773,141	648,831	19	
Perpetual licenses	3,822	5,039	(24))	6,650	10,254	(35))
Professional services	21,026	19,974	5		38,888	38,123	2	
Total non-recurring revenues	24,848	25,013	(1))	45,538	48,377	(6))
Total revenues	\$410,980	\$373,077	10		\$818,679	\$697,208	17	

Three Months Ended June 30, 2017 and 2016. Our revenues increased primarily due to revenues related to our acquisitions which included Wells Fargo’s Global Fund Services business (“GFS”) and Conifer Financial Services (“Conifer”) in the fourth quarter of 2016 which, combined, contributed \$20.1 million in revenues, net of a reduction of \$0.5 million in revenues related to the loss of sales to these businesses. Additionally, organic revenues increased \$19.7 million, of which approximately \$8.2 million was the result of the impact of the fair value adjustment for acquired deferred revenue on the periods. The change in organic revenues also reflects a reduction of \$7.4 million related to fund administration service clients that were acquired through the Citigroup Alternative Investor Services business (“Citigroup AIS”) acquisition who had indicated they were terminating their contracts prior to the acquisition closing. The final purchase price of the Citigroup AIS business acquisition included an adjustment for these terminated clients. The remaining increase in organic revenues was primarily due to a continued increase in demand for our fund administration services from alternative investment managers. These increases were partially offset by the unfavorable impact from foreign currency translation of \$2.0 million, which resulted primarily from the strength of the U.S. dollar relative to the British pound. Recurring revenues increased primarily due to the acquisitions, which added revenues of \$19.7 million, as well as from an increase in organic revenues of \$20.0 million, of which \$6.7 million was the result of the impact of the fair value adjustment of acquired deferred revenue on the periods. Non-recurring revenues decreased primarily due to a decrease in perpetual license sales offset by an increase in professional services revenues as well as the acquisitions, which contributed revenues of \$0.4 million and an increase of \$1.5 million resulting from the impact of the fair value adjustment of acquired deferred revenue.

Six Months Ended June 30, 2017 and 2016. Our revenues increased primarily due to revenues related to our acquisitions which included GFS and Conifer in the fourth quarter of 2016 and Citigroup AIS in the first quarter of

2016, which, combined, contributed \$78.2 million in revenues, net of a reduction of \$1.7 million in revenues related to the loss of sales to these businesses. Additionally, organic revenues increased \$46.1 million, of which approximately \$25.4 million was the result of the impact of the fair value adjustment for acquired deferred revenue on the periods. The change in organic revenues also reflects a reduction of \$7.4 million related to fund administration service clients that were acquired through the Citigroup AIS acquisition who had indicated they were terminating their contracts prior to the acquisition closing. The final purchase price of the Citigroup AIS business acquisition included an adjustment for these terminated clients. The remaining increase in organic revenues was primarily due to a continued increase in demand for our fund administration services from alternative investment managers. These increases were partially offset by the unfavorable impact from foreign currency translation of \$2.9 million, which resulted primarily from the strength of the U.S. dollar relative to the British pound. Recurring revenues increased primarily due to the acquisitions, which added revenues of \$77.4 million, as well as from an increase in organic revenues of \$49.4 million, of which \$21.5 million was the result of the impact of the fair value adjustment of acquired deferred revenue on the periods. Non-recurring revenues decreased primarily due to a decrease in perpetual license sales offset by an increase in professional services revenues as well as the acquisitions, which contributed revenues of \$0.8 million and an increase of \$3.9 million resulting from the impact of the fair value adjustment of acquired deferred revenue.

Cost of Revenues

Cost of recurring revenues consists primarily of costs related to personnel utilized in servicing our software-enabled services and maintenance contracts and amortization of intangible assets. Cost of non-recurring revenues consists primarily of the cost related to personnel utilized to provide implementation, conversion and training services to our software licensees, as well as system integration and custom programming consulting services and amortization of intangible assets.

The following tables set forth each of the following cost of revenues as a percentage of their respective revenue source for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of revenues:				
Cost of software-enabled services	58%	60%	57%	58%
Cost of maintenance and term licenses	42	45	42	47
Total cost of recurring revenues	53	55	53	54
Cost of perpetual licenses	17	13	18	11
Cost of professional services	80	86	84	86
Total cost of non-recurring revenues	71	71	75	70
Total cost of revenues	54	56	54	56
Gross margin percentage	46	44	46	44

The following table sets forth cost of revenues (dollars in thousands) and percent change in cost of revenues for the periods indicated:

	Three Months Ended June 30,		Percent Change from Prior Period	Six Months Ended June 30,		Percent Change from Prior Period
	2017	2016		2017	2016	
Cost of revenues:						
Cost of software-enabled services	\$158,888	\$146,243	9%	\$312,894	\$259,971	20%
Cost of maintenance and term licenses	47,280	46,460	2	94,265	93,406	1
Total cost of recurring revenues	206,168	192,703	7	407,159	353,377	15
Cost of perpetual licenses	650	643	1	1,215	1,141	6
Cost of professional services	16,874	17,133	(2)	32,777	32,645	0
Total cost of non-recurring revenues	17,524	17,776	(1)	33,992	33,786	1
Total cost of revenues	\$223,692	\$210,479	6	\$441,151	\$387,163	14

Three Months Ended June 30, 2017 and 2016. Our total cost of revenues increased primarily due to our acquisitions which included GFS and Conifer, which, combined, added costs of \$17.4 million for the three months ended June 30, 2017. This increase was partially offset by a decrease of \$2.2 million for the three months ended June 30, 2017 in costs to support organic revenues, primarily related to cost synergies from a prior acquisition as well as by the favorable impact from foreign currency translation of \$2.0 million for the three months ended June 30, 2017, which resulted primarily from the strength of the U.S. dollar relative to the British pound. Recurring cost of revenues increased primarily due to the acquisitions, which added costs of \$17.3 million. Non-recurring cost of revenues decreased slightly primarily due to the favorable impact from foreign currency translation.

Six Months Ended June 30, 2017 and 2016. Our total cost of revenues increased primarily due to our acquisitions which included GFS, Conifer and Citigroup AIS, which, combined, added costs of \$60.4 million for the six months ended June 30, 2017. This increase was partially offset by a decrease of \$2.5 million for the six months ended June 30, 2017 in costs to support organic revenues, primarily related to cost synergies from a prior acquisition as well as by the favorable impact from foreign currency translation of \$3.9 million for the six months ended June 30, 2017, which resulted primarily from the strength of the U.S. dollar relative to the British pound. Recurring cost of revenues increased primarily due to the acquisitions, which added costs of \$60.1 million. Non-recurring cost of revenues increased slightly due to higher organic costs of non-recurring revenues and to a lesser extent due to our acquisitions partially offset by the favorable impact from foreign currency translation.

Operating Expenses

Selling and marketing expenses consist primarily of the personnel costs associated with the selling and marketing of our products, including salaries, commissions and travel and entertainment. Such expenses also include amortization of intangible assets, the cost of branch sales offices, trade shows and marketing and promotional materials. Research and development expenses consist primarily of personnel costs attributable to the enhancement of existing products and the development of new software products. General and administrative expenses consist primarily of personnel costs related to management, accounting and finance, information management, human resources and administration and associated overhead costs, as well as fees for professional services.

The following table sets forth the percentage of our total revenues represented by each of the following operating expenses for the periods indicated:

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
Operating expenses:				
Selling and marketing	7 %	8 %	7 %	9 %
Research and development	10	11	10	11
General and administrative	7	7	7	8
Total operating expenses	24%	26 %	24%	28 %

The following table sets forth operating expenses (dollars in thousands) and percent change in operating expenses for the periods indicated:

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016		Percent Change from Prior Period	Percent Change from Prior Period
Operating expenses:						
Selling and marketing	\$30,121	\$28,535	\$60,363	\$58,396	6 %	3 %
Research and development	39,079	40,827	77,528	77,274	(4)	0
General and administrative	28,103	27,199	59,935	57,894	3	4
Total operating expenses	\$97,303	\$96,561	\$197,826	\$193,564	1	2

Three and Six Months Ended June 30, 2017 and 2016. The increase in total operating expenses in 2017 was primarily due to our acquisitions which included GFS, Conifer and Citigroup AIS, which, combined, added expenses of \$3.1 million and \$11.3 million for the three and six months ended June 30, 2017, respectively. These increases were offset by a decrease in stock-based compensation of \$2.1 million and \$6.7 million, respectively in those periods, primarily attributed to accelerated stock-based compensation related to the elimination of redundant positions at an acquisition during the three and six months ended June 30, 2016. These increases were also partially offset by the favorable impact from foreign currency translation of \$1.2 million and \$2.3 million, respectively in those periods, which resulted from the strength of the U.S. dollar relative to the British pound.

Comparison of the Three and Six Months Ended June 30, 2017 and 2016 for Interest, Taxes and Other

Interest expense, net. We had net interest expense of \$26.3 million and \$55.3 million for the three and six months ended June 30, 2017, respectively, compared to \$32.8 million in and \$65.9 million for the three and six months ended June 30, 2016, respectively. The decrease in interest expense for 2017 as compared to 2016 for both periods presented was primarily due to a lower average debt balance and a lower average interest rate, as a result of the March 2017

Amendment to our Credit Agreement. These facilities are discussed further in “Liquidity and Capital Resources”.

Other (expense) income, net. We had other expense, net of \$1.2 million and \$1.3 million for the three and six months ended June 30, 2017, respectively, compared to other income, net of \$12.0 thousand and other expense, net of \$1.8 million for the three and six months ended June 30, 2016, respectively. Other (expense) income, net consists primarily of foreign currency transaction losses for all periods presented.

Loss on extinguishment of debt. We recorded a \$2.3 million loss on extinguishment of debt in the three months ended March 31, 2017 in connection with the amendment of our senior secured credit facility. The loss on early extinguishment of debt includes the write-off of a portion of the unamortized capitalized financing fees related to the senior secured credit facility for amounts accounted for as a debt extinguishment, as well as the new financing fees related to the senior secured credit facility for amounts accounted for as a debt modification.

Provision for income taxes. The following table sets forth the provision for income taxes (dollars in thousands) and effective tax rates for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Provision for income taxes	\$11,342	\$4,982	\$21,495	\$13,485
Effective tax rate	18	% 15	% 18	% 28

Our June 30, 2017 and 2016 effective tax rates differ from the statutory rate primarily due to the effect of our foreign operations. The increase in the effective tax rate for the three months ended June 30, 2017 was primarily due to an increase in pre-tax income from domestic operations taxed at a high statutory rate as compared to the prior year, partially offset by the recognition of windfall tax benefits from stock awards in the current quarter as a component of the income tax provision. The decrease in the effective tax rate for the six months ended June 30, 2017 was primarily due to the recognition of windfall tax benefits from stock awards in the current year as a component of the income tax provision and the absence of the unfavorable impact of a change in state apportionment on our domestic deferred tax liabilities as a result of the acquisition of Citigroup AIS in the first quarter of 2016, partially offset by the unfavorable impact from an increase in pre-tax income from domestic operations taxed at a high statutory rate. Our effective tax rate includes the effect of operations outside the United States, which historically have been taxed at rates lower than the U.S. statutory rate. While we have income from multiple foreign sources, the majority of our non-U.S. operations are in Canada, India and the United Kingdom, where we anticipate the statutory rates to be 26.5%, 34.6% and 19.3%, respectively, in 2017. The consolidated expected effective tax rate for the year ended December 31, 2017 is forecasted to be between 20% and 22%. A future proportionate change in the composition of income before income taxes from foreign and domestic tax jurisdictions could impact our periodic effective tax rate.

Liquidity and Capital Resources

Our principal cash requirements are to finance the costs of our operations pending the billing and collection of client receivables, to fund payments with respect to our indebtedness, to invest in research and development, to acquire complementary businesses or assets and to pay dividends on our common stock. We expect our cash on hand, cash flows from operations, and cash available under the Credit Agreement to provide sufficient liquidity to fund our current obligations, projected working capital requirements and capital spending for at least the next twelve months.

In 2017, we paid quarterly cash dividends of \$0.0625 per share of common stock on March 15, 2017 and June 15, 2017 to stockholders of record as of the close of business on March 1, 2017 and June 1, 2017, respectively, totaling \$25.5 million.

Our cash, cash equivalents and restricted cash at June 30, 2017 were \$92.3 million, a decrease of \$27.4 million from \$119.7 million at December 31, 2016. The decrease in cash, cash equivalents and restricted cash is primarily due to net repayments of debt, payment of dividends and capital expenditures. These decreases were partially offset by cash provided by operations and proceeds from stock option exercises.

Net cash provided by operating activities was \$193.8 million for the six months ended June 30, 2017. Cash provided by operating activities primarily resulted from net income of \$99.3 million adjusted for non-cash items of \$133.0 million, partially offset by changes in our working capital accounts (excluding the effect of acquisitions) totaling \$38.5 million. The changes in our working capital accounts were driven by a decrease in accrued expenses, partially offset by an increase in accounts payable. The decrease in accrued expenses was primarily due to the payment of annual employee bonuses in the first quarter of 2017. The increase in accounts payable was primarily due to the timing of payments.

Investing activities used net cash of \$23.2 million for the six months ended June 30, 2017, primarily related to \$19.4 million in capital expenditures and \$5.6 million in capitalized software costs partially offset by cash received of \$1.8 million related to purchase price adjustments for prior acquisitions.

Financing activities used net cash of \$201.1 million for the six months ended June 30, 2017, representing net repayments of debt totaling \$208.4 million, \$25.5 million in quarterly dividends paid and \$3.1 million in withholding

taxes paid related to equity award net share settlements, partially offset by proceeds of \$35.9 million from stock option exercises.

We have made a permanent reinvestment determination in certain non-U.S. operations that have historically generated positive operating cash flows. At June 30, 2017, we held approximately \$67.3 million in cash and cash equivalents at non-U.S. subsidiaries where we had made such a determination and in turn no provision for U.S. income taxes had been made. At June 30, 2017, we held approximately \$61.6 million in cash that was available to our foreign borrowers under our senior secured credit facility and will be used to facilitate debt servicing of those entities.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Senior Secured Credit Facilities

On March 2, 2017 (“Amendment Effective Date”), we entered into an amendment (the “Amendment”) to our senior secured credit agreement (“Amended Senior Secured Credit Agreement”) dated July 8, 2015. Pursuant to the Amendment, the highest (non-default) interest rate margin applicable to Term Loan A was reduced from LIBOR plus 2.75% to LIBOR plus 1.75%, and the highest (non-default) interest rate margin applicable to Term Loan B was reduced from LIBOR plus 3.25% to LIBOR plus 2.25%. The LIBOR “floor” was also amended for the Term Loan A and the Term Loan B to be 0%. Subject to certain exceptions, in the event the Company and/or its subsidiaries enters into a transaction within six months from the Amendment Effective Date, the effect of which is to lower the “effective yield” of all or a portion of either the Term Loan A or the Term Loan B, the Company will pay to the applicable lenders a 1% prepayment premium on the loans subject to such transaction. No changes were made to the financial covenants, outstanding principal amounts or the scheduled amortization.

The Amendment was evaluated in accordance with FASB Accounting Standards Codification 470-50, Debt-Modifications and Extinguishments, for modification and extinguishment accounting. The Company accounted the debt re-pricing as a debt modification with respect to amounts that remained obligations of the same lender in the syndicate with minor changes in cash flows and as a debt extinguishment with respect to amounts that were obligations of lenders that exited the syndicate or remained in the syndicate but experienced a change in cash flows of greater than 10%. See Note 2 to our Condensed Consolidated Financial Statements for further discussion of debt.

The Company recorded a \$2.3 million loss on extinguishment of debt in the three months ended March 31, 2017 in connection with the Amendment. The loss on early extinguishment of debt includes the write-off of a portion of the unamortized capitalized financing fees related to the senior secured credit facility for amounts accounted for as a debt extinguishment, as well as new financing fees related to the Amendment for amounts accounted for as a debt modification.

As of June 30, 2017, there was \$89.4 million in principal amount outstanding under the Term Loan A-1, \$138.7 million in principal amount outstanding under the Term Loan A-2, \$1,436.0 million in principal amount outstanding under the Term Loan B-1 and \$87.1 million in principal amount outstanding under the Term Loan B-2. In addition, the Amended Senior Secured Credit Agreement has a revolving credit facility with a five year term available for borrowings by SS&C with \$150 million in available commitments, or the Revolving Credit Facility, of which \$0.0 million and \$94.0 million was outstanding as of June 30, 2017 and December 31, 2016, respectively. The Revolving Credit Facility also contains a \$25 million letter of credit sub-facility, of which \$0.6 million and \$0.6 million was outstanding as of June 30, 2017 and December 31, 2016, respectively.

We are required to make scheduled quarterly payments of 0.25% of the original principal amount of the Term Loan B-1 and Term Loan B-2, with the balance due and payable on the seventh anniversary of its incurrence. We are required to make scheduled quarterly payments of 1.25% of the original principal amount of the Term Loan A-1 and Term Loan A-2 until September 30, 2017 and quarterly payments of 2.50% of the original principal amount of the Term Loan A-1 and Term Loan A-2 from December 31, 2017 until June 30, 2020 with the balance due and payable on the fifth anniversary of the incurrence thereof. No amortization is required under the Revolving Credit Facility.

Our obligations under the Term Loans are guaranteed by (i) Holdings and each of our existing and future U.S. wholly-owned restricted subsidiaries, in the case of the Term Loan B-1 and the Revolving Credit Facility and (ii) Holdings, SS&C and each of our existing and future wholly-owned restricted subsidiaries, in the case of the Term Loan A-1, the Term Loan A-2 and the Term Loan B-2.

The obligations of the U.S. loan parties under the Amended Senior Secured Credit Agreement are secured by substantially all of the assets of such persons (subject to customary exceptions and limitations), including a pledge of

all of the capital stock of substantially all of the U.S. wholly-owned restricted subsidiaries of such persons (with customary exceptions and limitations) and 65% of the capital stock of certain foreign restricted subsidiaries of such persons (with customary exceptions and limitations). All obligations of the non-U.S. loan parties under the Amended Senior Secured Credit Agreement are secured by substantially all of Holdings' and the other guarantors' assets (subject to customary exceptions and limitations), including a pledge of all of the capital stock of substantially all of Holdings' wholly-owned restricted subsidiaries (with customary exceptions and limitations).

The Amended Senior Secured Credit Agreement includes negative covenants that, among other things and subject to certain thresholds and exceptions, limit our ability and the ability of our restricted subsidiaries to incur debt or liens, make investments (including in the form of loans and acquisitions), merge, liquidate or dissolve, sell property and assets, including capital stock of our subsidiaries, pay dividends on our capital stock or redeem, repurchase or retire our capital stock, alter the business we conduct, amend, prepay, redeem or purchase subordinated debt, or engage in transactions with our affiliates. In addition, the Amended Senior Secured Credit Agreement contains a financial covenant requiring us to maintain a consolidated net senior secured leverage ratio. In addition, under the Amended Senior Secured Credit Agreement, certain defaults under agreements governing other material indebtedness could result in an event of default under the Amended Senior Secured Credit Agreement, in which case the lenders could elect to accelerate

payments under the Amended Senior Secured Credit Agreement and terminate any commitments they have to provide future borrowings. As of June 30, 2017, we were in compliance with the financial and non-financial covenants.

Senior Notes

On July 8, 2015, in connection with the acquisition of Advent, we issued \$600.0 million aggregate principal amount of 5.875% Senior Notes due 2023. The Senior Notes are guaranteed by SS&C and each of our wholly-owned domestic subsidiaries that borrows or guarantees obligations under the Amended Senior Secured Credit Agreement. The guarantees are full and unconditional and joint and several. The Senior Notes are unsecured senior obligations that are equal in right of payments to all existing and future senior debt, including the Amended Senior Secured Credit Agreement.

On April 20, 2016, we commenced an offer to exchange for the Senior Notes, new notes identical in all material respects to the Senior Notes, except that the new notes were registered under the Securities Act of 1933. The exchange offer expired on May 18, 2016 and 100% of the Senior Notes were exchanged for the new notes.

At any time after July 15, 2018, we may redeem some or all of the Senior Notes, in whole or in part, at the redemption prices set forth in the indenture governing the Senior Notes plus accrued and unpaid interest to the redemption date. At any time on or before July 15, 2018, we may redeem up to 35% of the aggregate principal amount of the Senior Notes at a redemption price equal to 105.875% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net proceeds of one or more equity offerings.

The indenture governing the Senior Notes contains a number of covenants that restrict, subject to certain thresholds and exceptions, our ability and the ability of our restricted subsidiaries to incur debt or liens, make certain investments, pay dividends, dispose of certain assets, engage in mergers or acquisitions or engage in transactions with our affiliates.

As of June 30, 2017, there were \$600.0 million in principal amount of Senior Notes outstanding.

Covenant Compliance

Under the Amended Senior Secured Credit Agreement, we are required to satisfy and maintain a specified financial ratio. Our continued ability to meet this financial ratio can be affected by events beyond our control, and we cannot assure you that we will continue to meet this ratio. Any breach of these covenants could result in an event of default under the Amended Senior Secured Credit Agreement. Upon the occurrence of any event of default under the Amended Senior Secured Credit Agreement, the lenders could elect to declare all amounts outstanding under the Amended Senior Secured Credit Agreement to be immediately due and payable and terminate all commitments to extend further credit.

Consolidated EBITDA is a non-GAAP financial measure used in key financial covenants contained in the Amended Senior Secured Credit Agreement, which is a material facility supporting our capital structure and providing liquidity to our business. Consolidated EBITDA is defined as earnings before interest, taxes, depreciation and amortization ("EBITDA"), further adjusted to exclude unusual items and other adjustments permitted in calculating covenant compliance under the Amended Senior Secured Credit Agreement. We believe that the inclusion of supplementary adjustments to EBITDA applied in presenting Consolidated EBITDA is appropriate to provide additional information to investors to demonstrate compliance with the specified financial ratio and other financial condition tests contained in the Amended Senior Secured Credit Agreement.

Management uses Consolidated EBITDA to gauge the costs of our capital structure on a day-to-day basis when full financial statements are unavailable. Management further believes that providing this information allows our investors greater transparency and a better understanding of our ability to meet our debt service obligations and make capital expenditures.

Any breach of covenants in the Amended Senior Secured Credit Agreement that are tied to ratios based on Consolidated EBITDA could result in an event of default under that agreement, in which case the lenders could elect to declare all amounts borrowed immediately due and payable and to terminate any commitments they have to provide further borrowings. Any default and subsequent acceleration of payments under the Amended Senior Secured Credit Agreement would have a material adverse effect on our results of operations, financial position and cash flows. Additionally, under the Amended Senior Secured Credit Agreement, our ability to engage in activities such as incurring additional indebtedness, making investments and paying dividends is also tied to ratios based on Consolidated EBITDA.

Consolidated EBITDA does not represent net income or cash flow from operations as those terms are defined by generally accepted accounting principles, or GAAP, and does not necessarily indicate whether cash flows will be sufficient to fund cash needs. Further, the Amended Senior Secured Credit Agreement requires that Consolidated 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.

Consolidated EBITDA is not a recognized measurement under GAAP and investors should not consider Consolidated EBITDA as a substitute for measures of our financial performance and liquidity as determined in accordance with GAAP, such as net income, operating income or net cash provided by operating activities. Because other companies may calculate Consolidated EBITDA differently than we do, Consolidated EBITDA may not be comparable to similarly titled measures reported by other companies. Consolidated EBITDA has other limitations as an analytical tool, when compared to the use of net income, which is the most directly comparable GAAP financial measure, including:

- Consolidated EBITDA does not reflect the provision of income tax expense in our various jurisdictions;
- Consolidated EBITDA does not reflect the significant interest expense we incur as a result of our debt leverage;
- Consolidated EBITDA does not reflect any attribution of costs to our operations related to our investments and capital expenditures through depreciation and amortization charges;
- Consolidated EBITDA does not reflect the cost of compensation we provide to our employees in the form of stock option awards; and
- Consolidated EBITDA excludes expenses and income that are permitted to be excluded per the terms of our Amended Senior Secured Credit Agreement, but which others may believe are normal expenses for the operation of a business.

The following is a reconciliation of net income to Consolidated EBITDA as defined in our Amended Senior Secured Credit Agreement.

(in thousands)	Three Months Ended		Six Months Ended		Twelve Months Ended
	June 30,	June 30,	June 30,	June 30,	June 30,
	2017	2016	2017	2016	2017
Net income	\$51,151	\$28,221	\$99,298	\$35,226	\$195,068
Interest expense, net	26,295	32,846	55,315	65,935	117,834
Provision for income tax	11,342	4,982	21,495	13,485	40,630
Depreciation and amortization	58,656	58,167	117,213	113,440	232,456
EBITDA	147,444	124,216	293,321	228,086	585,988
Stock-based compensation	10,378	12,566	21,278	27,913	43,929
Capital-based taxes	375	—	750	472	1,760
Acquired EBITDA and cost savings (1)	81	1,046	889	5,814	6,274
Non-cash portion of straight-line rent expense	478	769	546	1,553	1,191
Loss on extinguishment of debt	—	—	2,326	—	2,326
Purchase accounting adjustments (2)	2,653	8,630	3,005	24,258	10,366
Other (3)	2,409	1,289	4,164	6,754	3,301
Consolidated EBITDA	\$163,818	\$148,516	\$326,279	\$294,850	\$655,135

(1) Acquired EBITDA reflects the EBITDA impact of significant businesses that were acquired during the period as if the acquisition occurred at the beginning of the period, as well as cost savings enacted in connection with acquisitions.

(2)

Purchase accounting adjustments include (a) an adjustment to increase revenues by the amount that would have been recognized if deferred revenue were not adjusted to fair value at the date of acquisitions, (b) an adjustment to increase personnel and commissions expense by the amount that would have been recognized if prepaid commissions and deferred personnel costs were not adjusted to fair value at the date of the acquisitions and (c) an adjustment to increase rent expense by the amount that would have been recognized if lease obligations were not adjusted to fair value at the date of acquisitions.

- (3) Other includes expenses and income that are permitted to be excluded per the terms of our Amended Senior Secured Credit Agreement from Consolidated EBITDA, a financial measure used in calculating our covenant compliance. These include expenses and income related to currency transactions, facilities and workforce restructuring, legal settlements and business combinations, among other infrequently occurring transactions.

25

Our covenant requirement for net senior secured leverage ratio and the actual ratio as of June 30, 2017 are as follows:

	Covenant Requirement	Actual Ratio
Maximum consolidated net senior secured leverage to Consolidated EBITDA ratio ⁽¹⁾	5.25x	2.54x

(1) Calculated as the ratio of consolidated net secured funded indebtedness, net of cash and cash equivalents, to Consolidated EBITDA, as defined by the Amended Senior Secured Credit Agreement, for the period of four consecutive fiscal quarters ended on the measurement date. Consolidated net secured funded indebtedness is comprised of indebtedness for borrowed money, letters of credit, deferred purchase price obligations and capital lease obligations, all of which is secured by liens on our property.

Recently Adopted Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-18, Statement of Cash Flows: Restricted Cash. This ASU provides guidance on the classification of restricted cash in the statement of cash flows. This ASU requires that restricted cash be included within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for the Company for its first quarter of fiscal 2018. Early adoption is permitted and the guidance requires application using a retrospective method. The Company has early adopted ASU 2016-18, which did not have a material impact on the Company’s financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for the Company for its first quarter of fiscal 2017. Effective January 1, 2017, excess tax benefits will be prospectively reported as an operating activity in the Company’s Condensed Consolidated Statements of Cash Flows. As the Company has applied this guidance prospectively as of January 1, 2017, excess tax benefits for the six months ended June 30, 2016 will not be adjusted and continue to be reported in financing activities in the Condensed Consolidated Statements of Cash Flows. As a result of the adoption, the Company recognized discrete tax benefits of \$5.0 million and \$10.1 million in the provision for income taxes line of the Condensed Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2017 related to excess tax benefits upon vesting of a restricted-stock award or stock option exercise event relative to the deferred tax asset position established. The Company has elected to account for forfeitures as they occur and there was no material effect recorded upon adoption of this change. The Company has also excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of the Company’s diluted earnings per share for the three and six months ended June 30, 2017, which had the effect of increasing the weighted average common stock equivalents. Prior to the adoption of ASU 2016-09, the Company included excess tax benefits in assessing whether common equivalent shares were dilutive in the Company’s calculations of weighted average dilutive shares under the treasury stock method. Presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to all periods presented as such cash flows have historically been presented as financing activities.

Recent Accounting Pronouncements Not Yet Effective

In January 2017, the FASB issued ASU 2017-04, Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 of the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. As a result of ASU 2017-04, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and then recognize an impairment charge, as necessary, for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for fiscal years and interim periods within those years beginning after December 15, 2019, and early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The Company expects to adopt ASU 2017-04 for the Company's goodwill impairment tests in 2017.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230,

Statement of Cash flow, and other Topics. ASU 2016-15 is effective for the Company for its first quarter of fiscal 2018 and the guidance requires application using a retrospective method. The impact of the Company's adoption of ASU 2016-15 to the Company's Condensed Consolidated Financial Statements will be to reflect the presentation of debt prepayment or debt extinguishment costs as cash outflows for financing activities within the Company's Condensed Consolidated Statement of Cash Flows. This ASU is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires a consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for the Company for its first quarter of fiscal 2020 and earlier adoption is permitted beginning in the first quarter of fiscal 2019. Application of the ASU is through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently evaluating the impact of the pending adoption of ASU 2016-13 on the Company's Condensed Consolidated Financial Statements. This ASU is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU would require lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date; (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting is largely unchanged under the amendments of this ASU. Additional disclosures will be required to allow the user to assess the amount, timing and uncertainty of cash flows arising from leasing activities. A modified retrospective transition approach is required for leases existing at the time of adoption. ASU 2016-02 is effective for the Company for its first quarter of fiscal 2019 and earlier adoption is permitted. The impact of the Company's adoption of ASU 2016-02 to the Company's Condensed Consolidated Financial Statements will be to recognize the majority of the Company's operating lease commitments as operating lease liabilities and right-of-use assets upon adoption, which will result in a material increase in the assets and liabilities recorded on the Company's Condensed Consolidated Balance Sheet. The Company is continuing its assessment, which may identify additional impacts this ASU will have on the Company's Condensed Consolidated Financial Statements and related disclosures and internal controls over financial reporting.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The objective of ASU 2014-09 is to clarify the principles for recognizing revenue by removing inconsistencies and weaknesses in revenue requirements; providing a more robust framework for addressing revenue issues; improving comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; and providing more useful information to users of financial statements through improved revenue disclosure requirements. On August 12, 2015, the FASB issued ASU 2015-14, deferring the effective date by one year for ASU 2014-09. ASU 2014-09 is effective for the Company for its first quarter of 2018, with early adoption permitted for annual periods beginning after December 15, 2016. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application.

Subsequent to the issuance of ASU 2014-09, the FASB has issued the following updates: ASU 2016-08, Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations (Reporting Revenue Gross versus Net); ASU 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing; and ASU 2016-12, Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients. The amendments in these updates affect the guidance contained within ASU 2014-09.

The new revenue standard is expected to change the revenue recognition practices for the Company's term software license arrangements. More specifically, the Company does not expect that the license component of the Company's term license arrangements will be recognized ratably over the contractual term. The Company is continuing its assessment, which may identify additional impacts this ASU will have on the Company's Condensed Consolidated Financial Statements and related disclosures and internal controls over financial reporting. The Company intends to adopt the new revenue standard effective January 1, 2018 using the modified retrospective approach.

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, having initial maturities of three months or less. When necessary, we have borrowed to fund acquisitions.

At June 30, 2017, we had total debt of \$2,351.2 million, including \$1,751.2 million of variable interest rate debt. As of June 30, 2017, a 1% increase in interest rates would result in an increase in interest expense of approximately \$17.5 million per year.

During the six months ended June 30, 2017, approximately 27% of our revenues were from clients located outside the United States. A portion of the revenues from clients located outside the United States is denominated in foreign currencies, the majority being the British pound. While revenues and expenses of our foreign operations are primarily denominated in their respective local currencies, some subsidiaries do enter into certain transactions in currencies that are different from their local currency. These transactions consist primarily of cross-currency intercompany balances and trade receivables and payables. As a result of these transactions, we have exposure to changes in foreign currency exchange rates that result in foreign currency transaction gains and losses, which we report in other income (expense). These outstanding amounts were not material for the six months ended June 30, 2017. The amount of these balances can fluctuate in the future as we bill customers and buy products or services in currencies other than our functional currency, which could increase our exposure to foreign currency exchange rates. We continue to monitor our exposure to foreign exchange rates as a result of our acquisitions and changes in our operations. We do not enter into any market risk sensitive instruments for trading purposes.

The foregoing risk management discussion and the effect thereof are forward-looking statements. Actual results in the future may differ materially from these projected results due to actual developments in global financial markets. The analytical methods used by us to assess and minimize risk discussed above should not be considered projections of future events or losses.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2017, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended June 30, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The information regarding certain legal proceedings in which we are involved as set forth in Note 8 – Commitments and Contingencies of the Notes to the Condensed Consolidated Financial Statements (Part I, Item 1 of this Quarterly Report on Form 10-Q) is incorporated by reference into this Item 1.

Item 6. Exhibits

The exhibits listed in the Exhibit Index immediately preceding such exhibits are filed as part of this Report.

SIGNATURE

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, thereunto duly authorized.

SS&C TECHNOLOGIES HOLDINGS, INC.

By: /s/ Patrick J. Pedonti
Patrick J. Pedonti

Senior Vice President and Chief Financial Officer

(Duly Authorized Officer, Principal Financial and Accounting Officer)

Date: August 4, 2017

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
31.1	Certifications of the Registrant's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certifications of the Registrant's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of the Registrant's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished and not filed for purposes of sections 11 or 12 of the Securities Act and section 18 of the Exchange Act)
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Calculation Linkbase Document.*
101.LAB	XBRL Taxonomy Label Linkbase Document.*
101.PRE	XBRL Taxonomy Presentation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*

* submitted electronically herewith

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at June 30, 2017 and December 31, 2016, (ii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016, (iii) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 and (iv) Notes to Condensed Consolidated Financial Statements.