SS&C Technologies Holdings Inc
Form 10-Q
May 10, 2018

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 March 31, 2018

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 incorporation or organization) | (I.R.S. Employer Identification No.) |

80 Lamberton Road

Windsor, CT 06095

(Address of principal executive offices, including zip code)

860-298-4500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 238,091,089 shares of the registrant's common stock outstanding as of May 2, 2018.

SS&C TECHNOLOGIES HOLDINGS, INC.

INDEX



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 this Quarterly Report on Form 10-Q and in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on February 28, 2018, 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.

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)

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $74,077 | $ 64,057 |
| Accounts receivable, net of allowance for doubtful accounts of $7,390 and $6,739, respectively | 264,076 | 243,900 |
| Contract asset | 11,942 | — |
| Prepaid expenses and other current assets | 35,559 | 38,742 |
| Prepaid income taxes | — | 12,166 |
| Restricted cash | 543 | 592 |
| Total current assets | 386,197 | 359,457 |
| Property, plant and equipment: | | |
| Land | 2,655 | 2,655 |
| Building and improvements | 61,354 | 59,935 |
| Equipment, furniture, and fixtures | 144,825 | 138,747 |
| | 208,834 | 201,337 |
| Less: accumulated depreciation | (106,840 ) | (100,381 ) |
| Net property, plant and equipment | 101,994 | 100,956 |
| Deferred income taxes | 2,041 | 2,324 |
| Contract asset | 22,076 | — |
| Goodwill (Note 4) | 3,711,181 | 3,707,823 |
| Intangible and other assets, net of accumulated amortization of $1,011,145 and $953,957, respectively | 1,326,095 | 1,368,956 |
| Total assets | $5,549,584 | $ 5,539,516 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt (Note 3) | $37,338 | $ 37,863 |
| Accounts payable | 17,637 | 27,087 |
| Income taxes payable | 16,182 | 6,031 |
| Accrued employee compensation and benefits | 42,193 | 96,016 |
| Interest payable | 7,620 | 16,425 |

| | | |
|---|---|---|
| Other accrued expenses | 60,875 | 55,637 |
| Deferred revenue | 193,024 | 204,601 |
| Total current liabilities | 374,869 | 443,660 |
| Long-term debt, net of current portion (Note 3) | 1,949,232 | 2,007,332 |
| Other long-term liabilities | 120,621 | 118,679 |
| Deferred income taxes | 288,954 | 283,457 |
| Total liabilities | 2,733,676 | 2,853,128 |
| Commitments and contingencies (Note 9) | | |
| Stockholders' equity (Note 6): | | |
| 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; 209,375,921 shares and 208,109,294 shares issued, respectively, and 207,802,582 shares and 206,535,955 shares outstanding, respectively, of which 938 and 1,126 are unvested, respectively | 2,094 | 2,081 |
| Additional paid-in capital | 2,057,757 | 2,018,106 |
| Accumulated other comprehensive loss | (77,438) | (82,655) |
| Retained earnings | 851,495 | 766,856 |
| | 2,833,908 | 2,704,388 |
| Less: cost of common stock in treasury, 1,573,339 shares | (18,000) | (18,000) |
| Total stockholders' equity | 2,815,908 | 2,686,388 |
| Total liabilities and stockholders' equity | $5,549,584 | $ 5,539,516 |

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 March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Revenues: | | |
| Software-enabled services | $294,803 | $276,452 |
| License, maintenance and related | 127,126 | 131,247 |
| Total revenues | 421,929 | 407,699 |
| Cost of revenues: | | |
| Software-enabled services | 167,416 | 154,006 |
| License, maintenance and related | 62,164 | 63,453 |
| Total cost of revenues | 229,580 | 217,459 |
| Gross profit | 192,349 | 190,240 |
| Operating expenses: | | |
| Selling and marketing | 31,150 | 30,242 |
| Research and development | 38,919 | 38,449 |
| General and administrative | 35,433 | 31,832 |
| Total operating expenses | 105,502 | 100,523 |
| Operating income | 86,847 | 89,717 |
| Interest expense, net | (25,354) | (29,020) |
| Other income (expense), net | 438 | (71) |
| Loss on extinguishment of debt | — | (2,326) |
| Income before income taxes | 61,931 | 58,300 |
| Provision for income taxes | 10,681 | 10,153 |
| Net income | $51,250 | $48,147 |
| | | |
| Basic earnings per share | $0.25 | $0.24 |
| Diluted earnings per share | $0.24 | $0.23 |
| | | |
| Basic weighted average number of common shares outstanding | 206,993 | 203,376 |
| Diluted weighted average number of common and common equivalent shares outstanding | 217,656 | 209,704 |
| | | |
| Cash dividends declared and paid per common share | $0.07 | $0.0625 |
| | | |
| Net income | $51,250 | $48,147 |
| Other comprehensive income, net of tax: | | |
| Foreign currency exchange translation adjustment | 5,217 | 10,779 |
| Total comprehensive income, net of tax | 5,217 | 10,779 |
| Comprehensive income | $56,467 | $58,926 |

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)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Cash flow from operating activities: | | |
| Net income | $51,250 | $48,147 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 61,372 | 58,557 |
| Stock-based compensation expense | 12,702 | 10,900 |
| Amortization and write-offs of loan origination costs | 2,626 | 2,656 |
| Loss on extinguishment of debt | — | 2,326 |
| Loss on sale or disposition of property and equipment | 28 | 10 |
| Deferred income taxes | (12,425) | (7,295) |
| Provision for doubtful accounts | 44 | 1,154 |
| Changes in operating assets and liabilities, excluding effects from acquisitions: | | |
| Accounts receivable | (19,818) | (7,087) |
| Prepaid expenses and other assets | (30) | (2,532) |
| Contract assets | 26,847 | — |
| Accounts payable | (10,548) | 6,106 |
| Accrued expenses | (54,389) | (72,908) |
| Income taxes prepaid and payable | 19,680 | 5,077 |
| Deferred revenue | (7,395) | 12,777 |
| Net cash provided by operating activities | 69,944 | 57,888 |
| Cash flow from investing activities: | | |
| Additions to property and equipment | (7,163) | (5,990) |
| Cash paid for business acquisitions, net of cash acquired | (191) | 1,805 |
| Additions to capitalized software | (3,945) | (3,277) |
| Net cash used in investing activities | (11,299) | (7,462) |
| Cash flow from financing activities: | | |
| Cash received from debt borrowings | 45,000 | 45,000 |
| Repayments of debt | (106,250) | (105,200) |
| Proceeds from exercise of stock options | 29,132 | 14,017 |
| Withholding taxes paid related to equity award net share settlement | (2,171) | (589) |
| Fees paid for debt extinguishment | — | (1,363) |
| Dividends paid on common stock | (14,504) | (12,715) |
| Net cash used in financing activities | (48,793) | (60,850) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 119 | 1,663 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 9,971 | (8,761) |
| Cash, cash equivalents and restricted cash, beginning of period | 64,649 | 119,674 |
| Cash, cash equivalents and restricted cash, end of period | $74,620 | $110,913 |

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, 2017, filed with the Securities and Exchange Commission (the "SEC") on February 28, 2018 (the "2017 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 March 31, 2018, the results of its operations for the three months ended March 31, 2018 and 2017 and its cash flows for the three months ended March 31, 2018 and 2017. 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, 2017, which were included in the 2017 Form 10-K. The December 31, 2017 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 months ended March 31, 2018 are not necessarily indicative of the expected results for any subsequent quarters or the full year.

In connection with the adoption of ASC 606, the Company revised its presentation of revenues to illustrate its two primary sources of revenues: software-enabled services revenues and license, maintenance and other related revenues. The Company believes its prior presentation of recurring and non-recurring revenue streams is no longer useful, as the license portion of revenue from multi-year term license agreements is now recognized up-front and is no longer annually recurring in nature.

Recently Adopted Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 Accounting Standards Codification ("ASC") 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 was to reflect the presentation of debt prepayment or debt extinguishment costs as cash outflows from financing activities within the Company's Condensed Consolidated Statement of Cash Flows. The Company adopted ASU 2016-15, which did not have a material impact on the Company's financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU, Revenue from Contracts with Customers (Topic 606). ASC 606 supersedes the revenue recognition requirements in ASC 605 and 985 and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted ASC 606 as of January 1, 2018 using the modified retrospective transition method. See Note 2 for further details.

Recent Accounting Pronouncements Not Yet Effective

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

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

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.

Note 2—Revenues

Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method for those contracts which were not completed as of the date of adoption. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts continue to be reported in accordance with ASC 605 and 985. The most significant impact of the standard to the Company relates to the timing of revenue recognition for arrangements involving term licenses. Under ASC 606, the Company is required to recognize term license revenues upon the transfer of the license and recognize the associated maintenance revenues over the contract period, as opposed to the Company's prior practice of recognizing both the term license and maintenance revenues ratably over the contract period. In addition, the Company is required to capitalize and amortize incremental costs of obtaining a contract, such as certain sales commission costs, over the expected customer relationship period if the Company expects to recover those costs. The Company previously expensed these costs over the length of the initial contract excluding any renewals.

The Company recorded an increase to retained earnings of $65.8 million, or $47.9 million net of tax, as of January 1, 2018 due to the cumulative impact of adopting ASC 606, with the impact primarily related to the Company's term license revenues. The impact to revenues for the three months ended March 31, 2018 related to these adjustments was a decrease of $11.8 million.

The impact of adoption of ASC 606 on the Company's Condensed Consolidated Statement of Comprehensive Income was as follows (in thousands):

| | For the Three Months Ended March 31, 2018 | | |
|---|---|---|---|
| | As Reported | Balance without adoption of ASC 606 | Effect of Change |

| | | | |
|---|---|---|---|
| Revenues: | | | |
| License, maintenance and related | $127,126 | $122,128 | $4,998 |
| Operating expenses: | | | |
| Selling and marketing | $31,150 | $31,748 | $(598) |

The impact of adoption of ASC 606 on the Company's Condensed Consolidated Balance Sheet was as follows (in thousands):

| | As of March 31, 2018 | | |
|---|---|---|---|
| | As Reported | Balance without adoption of ASC 606 | Effect of Change |
| Assets: | | | |
| Accounts receivable, net | $264,076 | $265,272 | $(1,196) |
| Contract asset (current) | 11,942 | - | 11,942 |
| Prepaid expenses and other current assets | 35,559 | 31,943 | 3,616 |
| Contract asset (non-current) | 22,076 | - | 22,076 |
| Liabilities: | | | |
| Deferred revenue | $193,024 | $230,504 | $(37,480) |
| Other long-term liabilities | 120,621 | 118,115 | 2,506 |

The adoption of ASC 606 had no impact on the Company's total cash flows from operations.

Revenue Recognition

Software-enabled Services Revenue

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

The Company primarily offers software-enabled outsourcing services in which the Company utilizes its own software to offer comprehensive fund administration services for alternative investment managers, including fund manager services, transfer agency services, funds-of-funds services, tax processing and accounting. The Company also offers subscription-based on-demand software applications that are managed and hosted at the Company’s facilities. The software-enabled services arrangements provide an alternative for clients who do not wish to install, run and maintain complicated financial software. Under these arrangements, the client does not have the right to take possession of the software, rather, the Company agrees to provide access to its applications, remote use of its equipment to process transactions, access to client’s data stored on its equipment, and connectivity between its environment and the client’s computing systems.

Software-enabled services are generally provided under contracts with initial terms of one to five years that require monthly or quarterly payments, and are subject to automatic annual renewal at the end of the initial term unless terminated by either party.

In software-enabled services arrangements, the arrangement is a single performance obligation comprised of a series of distinct services that are substantially the same and have the same pattern of transfer to the customer (i.e. distinct months of service). The Company applies a measure of progress (typically time-based) to any fixed consideration and allocates variable consideration to the distinct periods of service based on usage or summarization of account information. These amounts may be constrained and are only included in revenue to the extent we do not expect a significant reversal when the uncertainty associated with the variable consideration is resolved. Revenue is generally recognized over the period the services are provided, which results in revenue recognition that corresponds with the value to the client of the services transferred to date relative to the remaining services promised.

License, Maintenance and Related Revenue Agreements

The Company generates revenues in the form of software license fees and related maintenance and services fees. License fees include perpetual license fees and term license fees which differ mainly in the duration over which the customer benefits from the software. Maintenance and services primarily consist of fees for maintenance services (including support and unspecified upgrades and enhancements when and if they are available) and to a lesser extent professional services which focus on both deployment and training the Company’s customers to fully leverage the use of its products although the user can benefit from the software without the Company’s assistance.

Under ASC 606, the Company identifies a contract with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to each performance obligation in the contract and recognizes revenues when (or as) the Company satisfies a performance obligation.

Software license performance obligations are functional intellectual property that are distinct as the user can benefit from the software on its own as defined under ASC 606. Software license revenues are recognized at the point of time when the software license has been delivered. Term license fees are typically due in annual installments at the beginning of each annual period and we record a contract asset for amounts recognized as revenue in excess of amounts billed.

The Company recognizes revenues from maintenance ratably over the term of the underlying maintenance contract term because the Company transfers control evenly by providing a stand-ready service. The term of the maintenance contract is usually one year. Renewals of maintenance contracts create new performance obligations that are satisfied over the term with the revenues recognized ratably over the term.

Revenues from professional services consist mostly of services provided on a time and materials basis. The performance obligations are satisfied, and revenues are recognized, over time as the services are provided.

In contracts with multiple performance obligations, the Company accounts for individual performance obligations separately if they are distinct. The Company allocates the transaction price to each performance obligation based on its relative standalone selling price out of total consideration of the contract. Standalone selling price is determined utilizing observable prices to the extent available. If the standalone selling price for a performance obligation is not directly observable, the Company estimates it maximizing the use of observable inputs. For maintenance and support, the Company determines the standalone selling price based on the price at which the Company separately sells a renewal contract and the economic relationship between licenses and maintenance. The Company determines the standalone selling price for sales of licenses using the residual approach. For professional services, the Company determines the standalone selling prices based on the price at which the Company separately sells those services.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

The Company occasionally enters into license agreements requiring significant customization of the Company's software which are not material to the Company's results of operations. The Company accounts for the license and professional service fees under these agreements as a single performance obligation, recognized over time using an input method during the development of the license. This method requires estimates to be made for costs to complete the agreement utilizing an estimate of development man-hours remaining. Revenue is recognized each period based on the hours incurred to date compared to the total hours expected to complete the project. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that completion costs may be revised. Such revisions are recognized in the period in which the revisions are determined. Provisions for estimated losses on uncompleted contracts are determined on a contract-by-contract basis, and are made in the period in which such losses are first estimated or determined.

Accounts Receivable, net is primarily comprised of billed and unbilled receivables for which we have an unconditional right to consideration, net of an allowance for doubtful accounts.

Deferred revenues represent mostly unrecognized fees billed or collected for maintenance and professional services. Deferred revenues are recognized as (or when) the Company performs under the contract. Deferred revenues are recorded on a net basis with contract assets at the contract level. Accordingly, approximately $29.3 million of deferred revenue is presented net within contract assets arising from the same contracts. The amount of revenues recognized in the period that was included in the opening deferred revenues balance was $76.5 million for the three months ended March 31, 2018.

As of March 31, 2018, revenue of approximately $266.3 million is expected to be recognized from remaining performance obligations for license, maintenance and related revenues, of which $174.1 million is expected to be recognized over the next twelve months. Software-enabled services are generally provided under contracts which are cancelable with 90 days' notice.

Revenue Disaggregation

The following table disaggregates our revenues by geography (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 (1) |
| United States | $302,703 | $296,836 |
| United Kingdom | 32,011 | 27,543 |
| Asia-Pacific and Japan | 28,988 | 26,449 |
| Europe, excluding United Kingdom | 27,808 | 24,876 |
| Canada | 18,318 | 20,628 |
| Americas, excluding United States and Canada | 12,101 | 11,367 |
| Total | $421,929 | $407,699 |

(1) As noted above, prior period amounts have not been adjusted under the modified retrospective method.

The following table disaggregates our revenues by source (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 (1) |
| Software-enabled services | $294,803 | $276,452 |
| Maintenance and term licenses | 107,756 | 110,557 |
| Perpetual licenses | 4,400 | 2,828 |
| Professional services | 14,970 | 17,862 |
| Total | $421,929 | $407,699 |

(1) As noted above, prior period amounts have not been adjusted under the modified retrospective method.

Costs of Revenues

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

Costs of revenues include all costs, including depreciation and amortization, incurred to produce revenues. Incremental costs of obtaining a contract (e.g., sales commissions) are capitalized and amortized on a basis consistent with the pattern of transfer of goods or services to the customer to which the asset relates over the expected customer relationship period if the Company expects to recover those costs. The Company previously expensed these costs over the length of the initial contract excluding any renewals. The expected customer relationship period is determined based on average historical customer relationship periods, including expected renewals. Expected renewal periods are only included in the expected customer relationship period if commission amounts paid upon renewal are not commensurate with amounts paid on the initial contract. Incremental costs of obtaining a contract include only those costs the Company incurs to obtain a contract that it would not have incurred if the contract had not been obtained. The Company has determined that certain commissions programs meet the requirements to be capitalized. Certain sales commissions associated with multi-year contracts are subject to an employee service requirement. As an action other than each party approving the contract is required to trigger payment of these sales commissions, they are not considered incremental costs to obtain a contract and are expensed as incurred. These costs are included in selling, general and administrative expenses.

Practical Expedients

The Company applies a practical expedient to expense sales commissions as incurred when the amortization period would have been one year or less.

As a practical expedient, the Company does not account for significant financing components if the period between when the Company transfers the promised product or service to the client and when the client pays for that product or service will be one year or less.

For the Company’s software-enabled services contracts which are cancelable with 90 days’ notice, the Company uses the practical expedient applicable to such contracts and has not disclosed the transaction price for the remaining performance obligations as of the end of each reporting period or when the Company expects to recognize this revenue.

The Company records revenue net of any taxes assessed by governmental authorities.

Note 3—Debt

At March 31, 2018 and December 31, 2017, debt consisted of the following (in thousands):

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Senior secured credit facilities, weighted-average interest rate of 4.05% and 3.75%, respectively | $1,430,925 | $ 1,492,175 |
| 5.875% senior notes due 2023 | 600,000 | 600,000 |
| Unamortized original issue discount and debt issuance costs | (44,355 ) | (46,980 ) |
| | 1,986,570 | 2,045,195 |
| Less current portion of long-term debt | 37,338 | 37,863 |
| Long-term debt | $1,949,232 | $ 2,007,332 |

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

| | March 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial liabilities: | | | | |
| Senior secured credit facilities | $1,430,925 | $1,436,911 | $1,492,175 | $1,500,761 |
| 5.875% senior notes due 2023 | 600,000 | 630,660 | 600,000 | 631,313 |

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 4—Goodwill

The change in carrying value of goodwill as of and for the three months ended March 31, 2018 is as follows (in thousands):

| | |
|---|---|
| Balance at December 31, 2017 | $3,707,823 |
| Adjustments to prior acquisitions | 208 |
| Effect of foreign currency translation | 3,150 |
| Balance at March 31, 2018 | $3,711,181 |

Note 5—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 March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net income | $51,250 | $48,147 |
| | | |
| Shares: | | |
| Weighted average common shares outstanding — used in calculation of basic EPS | 206,993 | 203,376 |
| Weighted average common stock equivalents — options and restricted shares | 10,663 | 6,328 |
| Weighted average common and common equivalent shares outstanding — used in calculation of diluted EPS | 217,656 | 209,704 |
| | | |
| Earnings per share - Basic | $0.25 | $0.24 |

| | | |
|---|---|---|
| Earnings per share - Diluted | $0.24 | $0.23 |

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

Weighted average stock options and SARs representing 182,333 and 14,455,614 shares were outstanding for the three months ended March 31, 2018 and 2017, respectively, but were not included in the computation of diluted EPS because the effect of including them would be anti-dilutive.

Dividends. In 2018, the Company paid a quarterly cash dividend of $0.07 per share of common stock on March 15, 2018 to stockholders of record as of the close of business on March 1, 2018 totaling $14.5 million.   In 2017, the Company paid a quarterly cash dividend of $0.0625 per share of common stock on March 15, 2017 to stockholders of record as of the close of business on March 1, 2017, totaling $12.7 million.

Note 6—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 months ended March 31, 2018 and 2017 was as follows (in thousands):

| | For the Three Months Ended March 31, | |
|---|---|---|
| Consolidated Statements of Comprehensive Income Classification | 2018 | 2017 |
| Cost of software-enabled services | $3,544 | $2,729 |
| Cost of license, maintenance and other related | 1,094 | 1,106 |
| Total cost of revenues | 4,638 | 3,835 |
| Selling and marketing | 2,682 | 2,673 |
| Research and development | 2,083 | 1,987 |
| General and administrative | 3,299 | 2,405 |
| Total operating expenses | 8,064 | 7,065 |
| Total stock-based compensation expense | $12,702 | $10,900 |

The following table summarizes stock option and SAR activity as of and for the three months ended March 31, 2018:

| | Shares |
|---|---|
| Outstanding at December 31, 2017 | 31,339,515 |

| | |
|---|---|
| Granted | 347,500 |
| Cancelled/forfeited | (218,882 ) |
| Exercised | (1,413,744 ) |
| Outstanding at March 31, 2018 | 30,054,389 |

The following table summarizes RSU activity as of and for the three months ended March 31, 2018:

| | Shares |
|---|---|
| Outstanding at December 31, 2017 | 183,076 |
| Granted | 24,923 |
| Cancelled/forfeited | (556 ) |
| Vested | (14,628 ) |
| Outstanding at March 31, 2018 | 192,815 |

Note 7—Income Taxes

The effective tax rate was 17.2% and 17.4% for the three months ended March 31, 2018 and 2017, respectively.  The change in the effective tax rate for the three months ended March 31, 2018 was primarily due to the decrease in the domestic statutory tax rate from 35% to 21%, offset partially by the unfavorable impact of a tax on Global Intangible Low-Taxed Income (“GILTI”).  Both the domestic statutory tax rate decrease and GILTI tax became effective January 1, 2018 as a result of the Tax Cut and Jobs Act of 2017 (“Tax Act”) enacted into law in the U.S. on December 22, 2017.  In December 2017, the SEC Staff issued Staff Accounting Bulletin

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

No. 118 (“SAB 118”) to provide guidance on how to implement the accounting required as a result of the Tax Act. Due to the complexity of the Tax Act, SAB 118 allowed companies to record provisional amounts, or reasonable estimates of the tax effects of the Act during a measurement period not to exceed one year beyond the enactment date. Accordingly, we provided provisional amounts for the period ending December 31, 2017 relating to the deemed repatriation provisions, revaluation of deferred taxes, other international provisions and the related state tax impacts. We have not yet completed our accounting related to these items and we did not record any significant adjustments related to our provisional amounts during the period ending March 31, 2018. We will continue to analyze the provisional amounts in conjunction with guidance issued by the Department of Treasury in order to complete our accounting during the measurement period.

Note 8—Acquisitions

The following unaudited pro forma condensed consolidated results of operations are provided for illustrative purposes only and assume that the acquisitions of CommonWealth Fund Services Ltd. and Modestspark occurred on January 1, 2016. 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 March 31, 2017 |
|---|---|
| Revenues | $ 411,045 |
| Net income | $ 50,482 |
| | |
| Basic EPS | $ 0.25 |
| Diluted EPS | $ 0.24 |
| | |
| Basic weighted average number of common shares outstanding | 203,376 |
| Diluted weighted average number of common and common equivalent shares outstanding | 209,704 |

Note 9—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 10—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.

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

Condensed consolidating financial information as of March 31, 2018 and December 31, 2017 and for the three months ended March 31, 2018 and 2017 are presented. The condensed consolidating financial information of the Company and its subsidiaries are as follows (in thousands):

| | March 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Consolidating and Eliminating Adjustments | Consolidated |
| Cash and cash equivalents | $— | $ 10,952 | $ 63,125 | $ — | $ 74,077 |
| Accounts receivable, net | — | 177,378 | 86,698 | — | 264,076 |
| Contract asset | — | 11,156 | 786 | — | 11,942 |
| Prepaid expenses and other current assets | — | 16,100 | 19,459 | — | 35,559 |
| Restricted cash | — | 543 | — | — | 543 |
| Net property, plant and equipment | — | 61,058 | 40,936 | — | 101,994 |
| Investment in subsidiaries | 3,512,062 | 982,351 | — | (4,494,413 ) | — |
| Intercompany receivables | — | 265,532 | 116,137 | (381,669 ) | — |
| Deferred income taxes, long-term | — | — | 2,041 | — | 2,041 |
| Long-term contract asset | — | 21,406 | 670 | — | 22,076 |
| Goodwill, intangible and other assets, net | — | 3,836,385 | 1,200,891 | — | 5,037,276 |
| Total assets | $3,512,062 | $ 5,382,861 | $ 1,530,743 | $ (4,876,082 ) | $ 5,549,584 |
| | | | | | |
| Current portion of long-term debt | — | 12,199 | 25,139 | — | 37,338 |
| Accounts payable | — | 8,441 | 9,196 | — | 17,637 |
| Accrued expenses | 7,344 | 57,597 | 45,747 | — | 110,688 |
| Income taxes payable | — | 13,140 | 3,042 | — | 16,182 |
| Deferred revenue | — | 163,056 | 29,968 | — | 193,024 |
| Long-term debt, net of current portion | 600,000 | 1,154,848 | 194,384 | — | 1,949,232 |
| Other long-term liabilities | — | 83,125 | 37,496 | — | 120,621 |
| Intercompany payables | 88,810 | 116,137 | 176,722 | (381,669 ) | — |
| Deferred income taxes, long-term | — | 262,256 | 26,698 | — | 288,954 |
| Total liabilities | 696,154 | 1,870,799 | 548,392 | (381,669 ) | 2,733,676 |
| Total stockholders' equity | 2,815,908 | 3,512,062 | 982,351 | (4,494,413 ) | 2,815,908 |
| Total liabilities and stockholders' equity | $3,512,062 | $ 5,382,861 | $ 1,530,743 | $ (4,876,082 ) | $ 5,549,584 |

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Consolidating and Eliminating Adjustments | Consolidated |
| Cash and cash equivalents | $— | $ 21,191 | $ 42,866 | $ — | $ 64,057 |
| Accounts receivable, net | — | 173,997 | 69,903 | — | 243,900 |
| Prepaid expenses and other current assets | — | 19,770 | 18,972 | — | 38,742 |
| Prepaid income taxes | — | 6,366 | 5,800 | — | 12,166 |
| Restricted cash | — | 592 | — | — | 592 |
| Net property, plant and equipment | — | 60,774 | 40,182 | — | 100,956 |
| Investment in subsidiaries | 3,373,730 | 938,794 | — | (4,312,524 ) | — |
| Intercompany receivables | — | 199,503 | 74,005 | (273,508 ) | — |
| Deferred income taxes, long-term | — | — | 2,324 | — | 2,324 |
| Goodwill, intangible and other assets, net | — | 3,871,503 | 1,205,276 | — | 5,076,779 |
| Total assets | $ 3,373,730 | $ 5,292,490 | $ 1,459,328 | $ (4,586,032 ) | $ 5,539,516 |
| | | | | | |
| Current portion of long-term debt | — | 12,626 | 25,237 | — | 37,863 |
| Accounts payable | — | 19,223 | 7,864 | — | 27,087 |
| Accrued expenses | 16,157 | 96,540 | 55,381 | — | 168,078 |
| Income taxes payable | — | — | 6,031 | — | 6,031 |
| Deferred revenue | — | 182,181 | 22,420 | — | 204,601 |
| Long-term debt, net of current portion | 600,000 | 1,197,576 | 209,756 | — | 2,007,332 |
| Other long-term liabilities | — | 82,239 | 36,440 | — | 118,679 |
| Intercompany payables | 71,185 | 74,005 | 128,318 | (273,508 ) | — |
| Deferred income taxes, long-term | — | 254,370 | 29,087 | — | 283,457 |
| Total liabilities | 687,342 | 1,918,760 | 520,534 | (273,508 ) | 2,853,128 |
| Total stockholders’ equity | 2,686,388 | 3,373,730 | 938,794 | (4,312,524 ) | 2,686,388 |
| Total liabilities and stockholders’ equity | $ 3,373,730 | $ 5,292,490 | $ 1,459,328 | $ (4,586,032 ) | $ 5,539,516 |

| | For the Three Months Ended March 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Consolidating and Eliminating Adjustments | Consolidated |
| Revenues | $— | $ 287,651 | $ 134,453 | $ (175 ) | $ 421,929 |
| Cost of revenues | — | 149,678 | 80,077 | (175 ) | 229,580 |
| Gross profit | — | 137,973 | 54,376 | — | 192,349 |
| Operating expenses: | | | | | |
| Selling and marketing | — | 22,025 | 9,125 | — | 31,150 |

| | | | | | |
|---|---|---|---|---|---|
| Research and development | — | 27,289 | 11,630 | — | 38,919 |
| General and administrative | — | 26,690 | 8,743 | — | 35,433 |
| Total operating expenses | — | 76,004 | 29,498 | — | 105,502 |
| Operating income | — | 61,969 | 24,878 | — | 86,847 |
| Interest expense, net | (8,813 ) | (12,267 ) | (4,274 ) | — | (25,354 ) |
| Other (expense) income, net | — | (18,846 ) | 19,284 | — | 438 |
| Earnings from subsidiaries | 60,063 | 33,480 | — | (93,543 ) | — |
| Income before income taxes | 51,250 | 64,336 | 39,888 | (93,543 ) | 61,931 |
| Provision for income taxes | — | 4,273 | 6,408 | — | 10,681 |
| Net income | $51,250 | $ 60,063 | $ 33,480 | $ (93,543 ) | $ 51,250 |
| Other comprehensive income, net of tax: | | | | | |
| Foreign currency exchange translation adjustment | 5,217 | 5,217 | 7,386 | (12,603 ) | 5,217 |
| Comprehensive income | $56,467 | $ 65,280 | $ 40,866 | $ (106,146 ) | $ 56,467 |

15

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

| | For the Three Months Ended March 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Consolidating and Eliminating Adjustments | Consolidated |
| Revenues | $— | $ 286,034 | $ 122,100 | $ (435) | $ 407,699 |
| Cost of revenues | — | 144,757 | 73,137 | (435) | 217,459 |
| Gross profit | — | 141,277 | 48,963 | — | 190,240 |
| Operating expenses: | | | | | |
| Selling and marketing | — | 22,625 | 7,617 | — | 30,242 |
| Research and development | — | 27,169 | 11,280 | — | 38,449 |
| General and administrative | — | 22,608 | 9,224 | — | 31,832 |
| Total operating expenses | — | 72,402 | 28,121 | — | 100,523 |
| Operating income | — | 68,875 | 20,842 | — | 89,717 |
| Interest expense, net | (8,813) | (15,004) | (5,203) | — | (29,020) |
| Other (expense) income, net | — | (17,731) | 17,660 | — | (71) |
| Loss on extinguishment of debt | — | (1,743) | (583) | — | (2,326) |
| Earnings from subsidiaries | 56,960 | 28,629 | — | (85,589) | — |
| Income before income taxes | 48,147 | 63,026 | 32,716 | (85,589) | 58,300 |
| Provision for income taxes | — | 6,066 | 4,087 | — | 10,153 |
| Net income | $48,147 | $ 56,960 | $ 28,629 | $ (85,589) | $ 48,147 |
| Other comprehensive income, net of tax: | | | | | |
| Foreign currency exchange translation adjustment | 10,779 | 10,779 | 10,109 | (20,888) | 10,779 |
| Comprehensive income | $58,926 | $ 67,739 | $ 38,738 | $ (106,477) | $ 58,926 |

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

| | For the Three Months Ended March 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Consolidating and Eliminating Adjustments | Consolidated |
| Cash Flow from Operating Activities: | | | | | |
| Net income | $51,250 | $ 60,063 | $ 33,480 | $ (93,543) | $ 51,250 |
| Non-cash adjustments | — | 48,163 | 16,184 | — | 64,347 |
| Intercompany transactions | 17,626 | (22,927) | 5,301 | — | — |
| Earnings from subsidiaries | (60,063) | (33,480) | — | 93,543 | — |
| Changes in operating assets and liabilities | (8,813) | (22,644) | (14,196) | — | (45,653) |
| Net cash provided by operating activities | — | 29,175 | 40,769 | — | 69,944 |
| Cash Flow from Investment Activities: | | | | | |
| Additions to property and equipment | — | (4,173) | (2,990) | — | (7,163) |
| Cash paid for business acquisitions, net of cash acquired | — | — | (191) | — | (191) |
| Additions to capitalized software | — | (2,689) | (1,256) | — | (3,945) |
| Net cash used in investing activities | — | (6,862) | (4,437) | — | (11,299) |
| Cash Flow from Financing Activities: | | | | | |
| Cash received from debt borrowings | — | 45,000 | — | — | 45,000 |
| Repayments of debt | — | (90,250) | (16,000) | — | (106,250) |
| Transactions involving Holding's common stock | — | 12,457 | — | — | 12,457 |
| Intercompany transactions | — | 192 | (192) | — | — |
| Net cash used in financing activities | — | (32,601) | (16,192) | — | (48,793) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | — | — | 119 | — | 119 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | — | (10,288) | 20,259 | — | 9,971 |
| Cash, cash equivalents and restricted cash, beginning of period | — | 21,783 | 42,866 | — | 64,649 |
| Cash, cash equivalents and restricted cash, end of period | $— | $ 11,495 | $ 63,125 | $ — | $ 74,620 |

SS&C TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued

(Unaudited)

| | For the Three Months Ended March 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Consolidating and Eliminating Adjustments | Consolidated |
| Cash Flow from Operating Activities: | | | | | |
| Net income | $48,147 | $ 56,960 | $ 28,629 | $ (85,589) | $ 48,147 |
| Non-cash adjustments | — | 51,401 | 16,907 | — | 68,308 |
| Intercompany transactions | 17,625 | (12,791) | (4,834) | — | — |
| Earnings from subsidiaries | (56,960) | (28,629) | — | 85,589 | — |
| Changes in operating assets and liabilities | (8,812) | (36,492) | (13,263) | — | (58,567) |
| Net cash provided by operating activities | — | 30,449 | 27,439 | — | 57,888 |
| Cash Flow from Investment Activities: | | | | | |
| Additions to property and equipment | — | (5,027) | (963) | — | (5,990) |
| Cash paid for business acquisitions, net of cash acquired | — | 1,802 | 3 | — | 1,805 |
| Additions to capitalized software | — | (2,331) | (946) | — | (3,277) |
| Net cash used in investing activities | — | (5,556) | (1,906) | — | (7,462) |
| Cash Flow from Financing Activities: | | | | | |
| Cash received from debt borrowings | — | 45,000 | — | — | 45,000 |
| Repayments of debt | — | (77,200) | (28,000) | — | (105,200) |
| Transactions involving Holding's common stock | — | 713 | — | — | 713 |
| Fees paid for debt extinguishment | — | (943) | (420) | — | (1,363) |
| Intercompany transactions | — | 60 | (60) | — | — |
| Net cash used in financing activities | — | (32,370) | (28,480) | — | (60,850) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | — | — | 1,663 | — | 1,663 |
| Net decrease in cash, cash equivalents and restricted cash | — | (7,477) | (1,284) | — | (8,761) |
| Cash, cash equivalents and restricted cash, beginning of period | — | 35,511 | 84,163 | — | 119,674 |
| Cash, cash equivalents and restricted cash, end of period | $— | $ 28,034 | $ 82,879 | $ — | $ 110,913 |

Note 11—Subsequent Events

Equity offering. In April 2018, the Company completed a public offering of its common stock. The offering included 30,262,250 newly issued shares of common stock sold by the Company at an offering price to the public of $47.50 per share for which the Company received total net proceeds of approximately $1.4 billion.

Acquisition of DST Systems, Inc. On April 16, 2018, the Company purchased all of the outstanding stock of DST Systems, Inc. ("DST") for approximately $5.0 billion in cash, plus the costs, fees, expenses and debt assumed in connection with the transaction. In connection with this acquisition, the Company entered into an amended and restated senior secured credit facility pursuant to which the Company borrowed an aggregate of approximately $7.4 billion (approximately $524.5 million of which was rolled over from the Company's existing credit facility). A portion of these proceeds was used to repay the Company's Senior Notes and the remaining amounts outstanding under the Company's existing credit facility. In addition, the amended and restated senior secured credit facility includes an undrawn revolving credit facility of $250.0 million. DST is a global provider of specialized technology, strategic advisory and business operations outsourcing to the financial services and healthcare industries. The net assets and results of operations of DST will be included in the Company's consolidated financial statements from April 16, 2018. The relevant business combination disclosures will be included in the Company's consolidated financial statements once preliminary accounting has been completed.

## 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 2017 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 2017 Form 10-K. Our critical accounting policies are described in the 2017 Form 10-K and include:

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

### Acquisition of DST Systems, Inc.

On April 16, 2018, the Company purchased all of the outstanding stock of DST Systems, Inc. (“DST”) for approximately $5.0 billion in cash, plus the costs, fees, expenses and debt assumed in connection with the transaction. In connection with this acquisition, the Company entered into an amended and restated senior secured credit facility pursuant to which the Company borrowed an aggregate of approximately $7.4 billion (approximately $524.5 million of which was rolled over from the Company’s existing credit facility). A portion of these proceeds was used to repay the Company’s Senior Notes and the remaining amounts outstanding under the Company’s existing credit facility. In addition, the amended and restated senior secured credit facility includes an undrawn revolving credit facility of $250.0 million. DST is a global provider of specialized technology, strategic advisory and business operations outsourcing to the financial services and healthcare industries. The net assets and results of operations of DST will be included in the Company’s consolidated financial statements from April 16, 2018. The relevant business combination disclosures will be included in the Company’s consolidated financial statements once preliminary accounting has been completed.

### Results of Operations

We derive our revenue from two sources: software-enabled services revenues and license, maintenance and related revenues. See Note 1 to our Condensed Consolidated Financial Statements for discussion of the change in revenue presentation compared to prior periods. 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. License, maintenance and related revenues consist of term and perpetual license fees, maintenance fees and professional services. Maintenance revenues vary based on customer retention and on the annual increases in fees, which are generally tied to the consumer price index. License and professional services revenues tend to fluctuate based on the number of new licensing clients, the timing and terms of contract renewals 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 March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Revenues: | | |
| Software-enabled services | 70 % | 68 % |
| License, maintenance and related | 30 | 32 |
| Total revenues | 100 % | 100 % |

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

| | Three Months Ended March 31, | | Percent Change from Prior Period |
|---|---|---|---|
| | 2018 | 2017 | |
| Revenues: | | | |
| Software-enabled services | $294,803 | $276,452 | 7 % |
| License, maintenance and related | 127,126 | 131,247 | (3 ) |
| Total revenues | $421,929 | $407,699 | 3 |

Three Months Ended March 31, 2018 and 2017. Our revenues increased $14.2 million or 3.5%. Revenues increased primarily due to increased demand for our software-enabled services. Our acquisitions, which included CommonWealth Fund Services Ltd. (“CommonWealth”) in the fourth quarter of 2017, contributed $1.8 million in revenues and the favorable impact from foreign currency translation added $3.3 million, which resulted primarily from the strength of the U.S. dollar relative to the British Pound, the Euro and the Canadian dollar. Software-enabled services revenues increased $18.4 million or 6.6% primarily due to a continued increase in demand for our fund administration services as well as services for advisory and wealth managers. Acquisitions contributed $1.8 million and the favorable impact from foreign currency translation was $1.8 million. License, maintenance and related revenues decreased $4.1 million or 3.1% primarily due to lower demand for professional services and the impact on term licenses as a result of the implementation of ASC 606. Offsetting the overall decrease in license, maintenance and related revenues was an increase of $1.5 million due to the favorable impact from foreign currency translation.

Cost of Revenues

Cost of software-enabled services revenues consists primarily of costs related to personnel utilized in servicing our software-enabled services and amortization of intangible assets. Cost of license, maintenance and other related revenues consists primarily of the cost related to personnel utilized in servicing our maintenance contracts and 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 March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Cost of revenues: | | |
| Cost of software-enabled services | 57 % | 56 % |
| Cost of license, maintenance and related | 49 | 48 |
| Total cost of revenues | 54 | 53 |
| Gross margin percentage | 46 | 47 |

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 March 31, | | Percent Change from Prior Period | |
|---|---|---|---|---|
| | 2018 | 2017 | | |
| Cost of revenues: | | | | |
| Cost of software-enabled services | $167,416 | $154,006 | 9 | % |
| Cost of license, maintenance and related | 62,164 | 63,453 | (2 | ) |
| Total cost of revenues | $229,580 | $217,459 | 6 | |

Three Months Ended March 31, 2018 and 2017. Our total cost of revenues increased $12.1 million or 5.6%. Acquisitions contributed $1.3 million to the increase and the unfavorable impact from foreign currency translation added $3.6 million, which resulted primarily from the strength of the U.S. dollar relative to the British Pound, the Euro and the Canadian dollar. Costs of software-enabled services revenues increased $13.4 million primarily due to increased personnel-related costs as well as rent and occupancy costs incurred to support the growth in software –enabled services revenues. Acquisitions added $1.3 million and the unfavorable impact from foreign currency translation added $2.8 million. Costs of license, maintenance and related revenues decreased $1.3 million primarily due to a decrease in personnel-related costs, offset by an increase of $0.8 million due to the unfavorable 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 March 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| Operating expenses: | | | | |
| Selling and marketing | 7 | % | 7 | % |
| Research and development | 9 | | 10 | |

| | | |
|---|---|---|
| General and administrative | 9 | 8 |
| Total operating expenses | 25 % | 25 % |

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

| | Three Months Ended March 31, 2018 | 2017 | Percent Change from Prior Period |
|---|---|---|---|
| Operating expenses: | | | |
| Selling and marketing | $31,150 | $30,242 | 3 % |
| Research and development | 38,919 | 38,449 | 1 |
| General and administrative | 35,433 | 31,832 | 11 |
| Total operating expenses | $105,502 | $100,523 | 5 |

Three Months Ended March 31, 2018 and 2017. Operating expenses increased $5.0 million, or 4.9% primarily due to higher professional fees associated with the acquisition of DST, legal-related expenses and higher personnel-related costs, partially offset by a decrease in rent and occupancy costs. Acquisitions added $0.3 million and the unfavorable impact from foreign currency translation added $1.7 million, which resulted primarily from the strength of the U.S. dollar relative to the British Pound, the Euro and the Canadian dollar.

Comparison of the Three Months Ended March 31, 2018 and 2017 for Interest, Taxes and Other

Interest expense, net. We had net interest expense of $25.4 million in 2018 compared to $29.0 million in 2017. The decrease in interest expense for 2018 as compared to 2017 was primarily due to a lower average debt balance as compared to the three months ended March 31, 2017. These facilities are discussed further in “Liquidity and Capital Resources”.

Other income (expense), net. We had other income, net of $0.4 million and other expense, net of less than $0.1 million for the three months ended March 31, 2018 and 2017, respectively. Other income (expense), net consists primarily of foreign currency transaction losses in both periods.

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 March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Provision for income taxes | $10,681 | $10,153 |
| Effective tax rate | 17 % | 17 % |

Our March 31, 2018 effective tax rate differs from the statutory rate of 21% primarily due to the recognition of windfall tax benefits from stock awards in the current quarter. Our March 31, 2017 effective tax rate differs from the statutory rate of 35% primarily due to the effect of our foreign operations. While the effective tax rate for the three months ended March 31, 2018 is consistent with the effective tax rate for the three months ended March 31, 2017, the effective tax rate for the three months ended March 31, 2018 was benefitted by the decrease in statutory rate from 35% to 21%, partially offset by the unfavorable impact of a tax on Global Intangible Low-Taxed Income (“GILTI”), both as a result of the Tax Cut and Jobs Act of 2017 (“Tax Act”) that was enacted into law in the U.S. in December 2017. Our effective tax rate benefited in prior years from the effect of operations outside the United States, which prior to 2018, were 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%, 30.5% and 19.0%, respectively, in 2018. The consolidated expected effective tax rate for the year ended December 31, 2018 is forecasted to be between 23% and 25%. 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.

In accordance with Staff Accounting Bulletin No. 118 (“SAB 118”) issued by the SEC Staff in December 2017, we recorded provisional estimates regarding certain provisions of the Tax Act in the period ending December 31, 2017, including the mandatory deemed repatriation provisions, revaluation of deferred taxes and related state tax impacts. We did not make any significant adjustments to these estimates for the quarter ending March 31, 2018. We will continue to analyze all necessary information and guidance in order to complete our accounting related to the Tax Act within the measurement period, which is not to exceed one year beyond the date of enactment.

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 Amended Senior Secured 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 April 2018, we purchased all of the outstanding stock of DST for approximately $5.0 billion in cash, plus the costs, fees, expenses and debt assumed in connection with the transaction. We funded the acquisition and refinancing of existing debt with $7.4 billion of debt financing (of which approximately $524.5 million was rolled over from our existing credit facility) and a portion of the net proceeds from the issuance and sale of approximately $1.4 billion of our common stock.

In 2018, we paid quarterly cash dividends of $0.07 per share of common stock on March 15, 2018 to stockholders of record as of the close of business on March 1, 2018, totaling $14.5 million. In 2017, we paid quarterly cash dividends of $0.0625 per share of common stock on March 15, 2017 to stockholders of record as of the close of business on March 1, 2017, totaling $12.7 million.

Our cash, cash equivalents and restricted cash at March 31, 2018