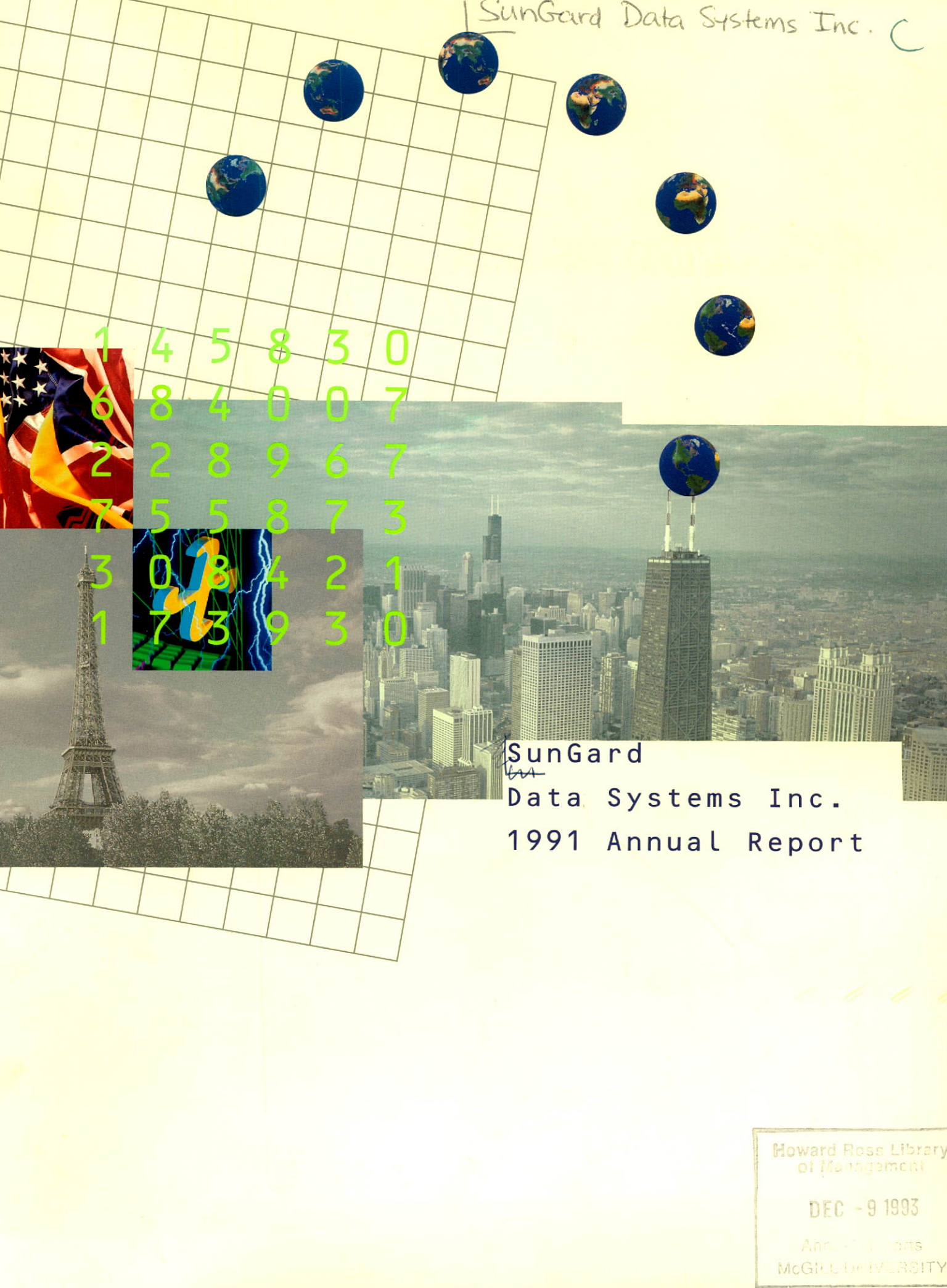


SunGard Data Systems Inc. C



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SunGard
Data Systems Inc.
1991 Annual Report

Howard Ross Library
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Overview of SunGard's Business

SunGard's business is computer services and applications software. The Company is the only large specialized provider of proprietary investment support systems and is the pioneer and a leading provider of comprehensive computer disaster recovery services. SunGard pursues a goal of producing predictable long-term increases in earnings by developing markets with the potential for growth, product and market-share advantage, and recurring sources of revenue.

INVESTMENT SUPPORT SYSTEMS

SunGard Derivative Instrument Systems

Trading, risk management and accounting systems for swaps, options, securities and other derivative instruments for international financial institutions.

SunGard Financial Systems

Portfolio management and securities trading and accounting systems for financial institutions, broker/dealers, governments and corporations.

SunGard Trust and Shareholder Systems

Trust and investment accounting and employee benefit plan systems for financial institutions and corporations; mutual fund, stock and bond accounting systems for mutual funds, transfer agents and corporations.

DISASTER RECOVERY SERVICES

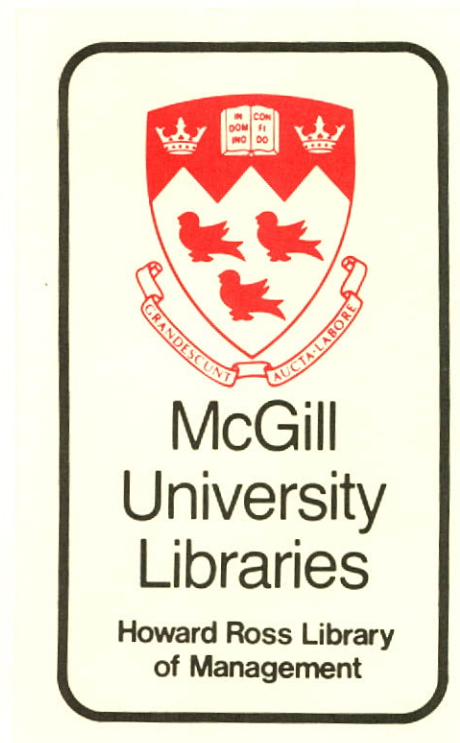
SunGard Recovery Services

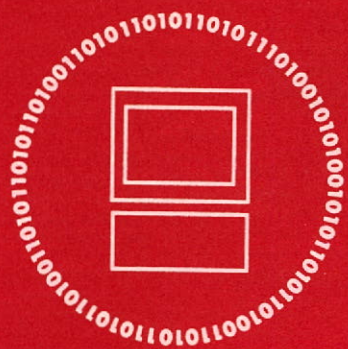
Alternate site backup, testing and recovery services for IBM, DEC, Hewlett Packard, Prime, Stratus, Tandem and Unisys computer installations; recovery planning software and related consulting and educational services.

COMPUTER SERVICES AND OTHER

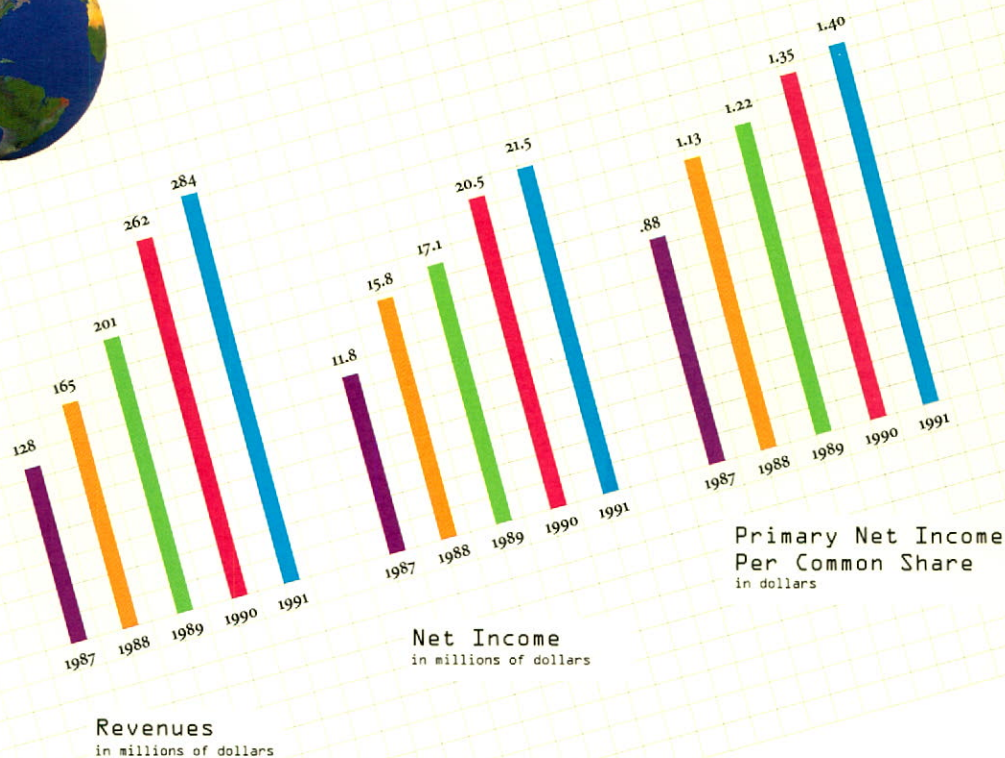
SunGard Computer Services

Remote-access IBM computer processing, direct marketing and automated mailing services and automotive dealership systems.





Financial Highlights



Selected Financial Information*

In thousands, except per share amounts

	1987	1988	1989	1990	1991
Income Statement Data:					
Revenues	\$127,736	\$164,800	\$201,093	\$262,108	\$283,550
Income from operations	18,289	24,273	28,022	40,330	42,491
Net income	11,764	15,767	17,119	20,480	21,467
Dividends on preferred stock	360	375	32	—	—
Primary net income per common share	.88	1.13	1.22	1.35	1.40
Balance Sheet Data:					
Total assets	\$127,882	\$147,737	\$193,430	\$302,687	\$313,459
Total long-term debt	19,151	17,157	37,287	109,232	87,820
Redeemable preferred stock	3,000	3,000	—	—	—
Stockholders' equity	81,345	99,482	116,178	140,266	162,998

* See Note 2 of Notes to Consolidated Financial Statements.

Your company recorded its ninth consecutive year of revenue and profit growth in 1991. Total revenues increased 8.2% to \$283,550,000, while net income grew 4.8% to \$21,467,000. Primary earnings per share rose 3.7% to \$1.40.

**TO OUR
STOCKHOLDERS**

We registered many positive accomplishments in 1991. Our results exceeded the expectations of the investment community, and our business plan for 1992 calls for double-digit income growth.

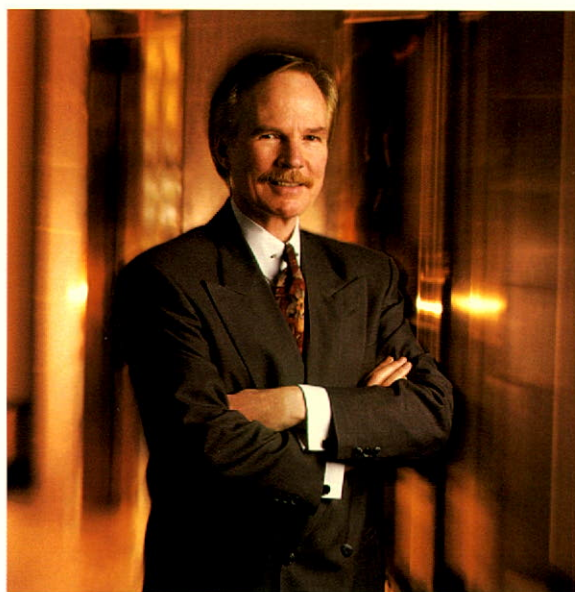
IMPROVED ENVIRONMENT In 1991 we were challenged by two factors: slower spending by customers and prospects in our investment support business and increased competition in disaster recovery. By the end of 1991, we saw improvement in both areas. We also saw encouraging results from our internal initiatives to more forcefully capitalize on our market positions.

Our investment support recurring revenue base grew from both old and new customers. We also noted positive change in the willingness of financial institutions to purchase larger investment support software by the end of 1991. While there still is an element of spending restraint, it seems to be diminishing. This increased willingness of our prospects to proceed with delayed purchases, combined with our product unification efforts and newly coordinated marketing program, leads us to expect greater profit growth in our investment support business in 1992.

Growth in our disaster recovery monthly recurring revenue from new sales reached an all-time high in 1991. The impact of intense competition for disaster recovery contract renewals and data center consolidations continued, but our overall 1991 experience indicates that opportunity exists for steady, continuing growth in our disaster recovery business.

POSITIVE DEVELOPMENTS Our major business groups performed well during the year. In investment support, our Derivative Instrument Systems Group continued to achieve success in the market for derivative systems, with particular success for this group's Devon System™ in the emerging Italian market, as well as in Japan and London. In June we acquired a small London-based provider of derivative systems. This acquisition brought us greater front-office capability, increased our customer base and added key development staff and a consulting business.

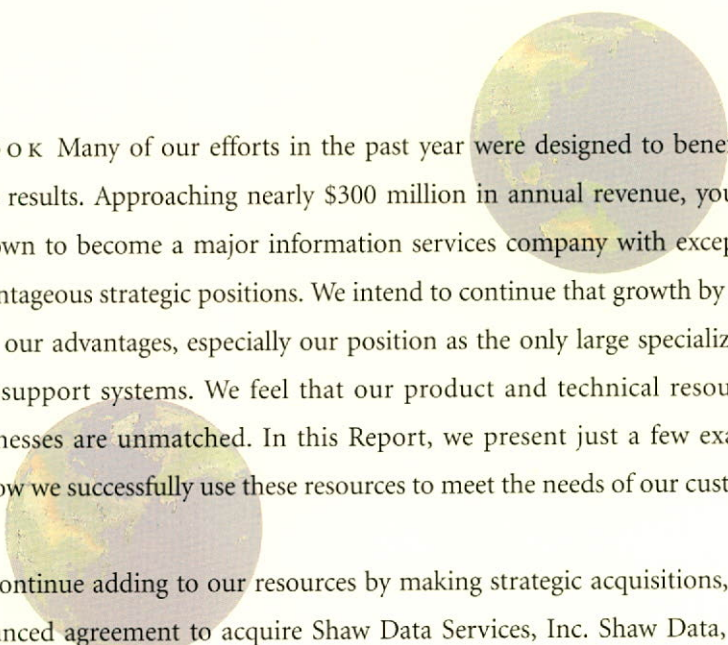
Our Trust and Shareholder Systems Group made progress in several areas. First, this group moved to unify its products by providing common-user access. This important project allows users to access data in our mainframe systems through PC-based front-ends. This technology also allows access to multiple SunGard systems and is compatible with DOS, Windows and OS/2. Other significant developments for this group included major new license sales for our employee benefit participant accounting products and a fourth-quarter installation of INVESTAR®, the mutual fund industry's first major shareholder accounting installation in many months. Lastly, near the end of the year we concluded a multimillion dollar sale of OmniGS™, our global custody system that is expected to capture additional large sales.



JAMES L. MANN
CHAIRMAN, PRESIDENT
AND CHIEF EXECUTIVE
OFFICER

We made significant advances in our Financial Systems Group during the year. The Resolution Trust Corporation selected this group's SERIES 2® for a two-year processing and development contract worth over \$5 million. Front-office and database-access enhancements, which are recent additions to our BOLT™ system, have been well received. We also announced a major new development effort that will produce a comprehensive international securities system for the capital markets. This system will be available on DEC platforms and UNIX-based workstations and will, we believe, attract the interest of major institutions in Europe. The system's state-of-the-art design also will allow it to communicate and interchange data with our Devon System for derivative instruments.

Our Disaster Recovery Group also achieved success in 1991. New disaster recovery contracts for IBM hotsite services were at the highest levels ever. Early in the year we made a strategic acquisition of the DEC-based disaster recovery business of National Computer Systems, Inc. This acquisition contributed to a high level of new sales toward the end of the year in our DEC product line. We also continued to invest in significant improvements to our MegaCenters®, adding uninterrupted power supply in Philadelphia and Chicago, a fifth IBM mainframe hotsite in Philadelphia and ten midrange hotsites nationwide. Finally, we announced equipment upgrades to our matrix switching capability in Philadelphia that we believe will give us the largest matrix switch complex in the world.



THE OUTLOOK Many of our efforts in the past year were designed to benefit future as well as current results. Approaching nearly \$300 million in annual revenue, your company has rapidly grown to become a major information services company with exceptional cash flows and advantageous strategic positions. We intend to continue that growth by aggressively capitalizing on our advantages, especially our position as the only large specialized provider of investment support systems. We feel that our product and technical resources in our principal businesses are unmatched. In this Report, we present just a few examples that demonstrate how we successfully use these resources to meet the needs of our customers.

We intend to continue adding to our resources by making strategic acquisitions, such as the recently announced agreement to acquire Shaw Data Services, Inc. Shaw Data, the leading provider of portfolio management and performance measurement services to investment managers, represents our first major acquisition since late in 1990. A very successful private company with approximately \$30 million in revenue, the company fits the SunGard profile well, especially with its almost 100% recurring revenue base. We expect Shaw Data to add to both revenues and earnings per share in 1992, while augmenting our investment support product lines this year and beyond.

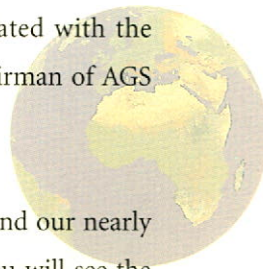
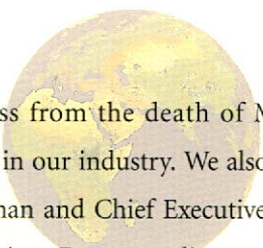
IN CONCLUSION We continued our record of uninterrupted growth in 1991. With a base of earnings that is predictable, we believe that over the long term our existing businesses, together with potential acquisitions, provide opportunity for continued growth.

SunGard has many strengths. In addition to financial strength, as evidenced by our profitability and balance sheet, we are the leader in most of our markets. Our well-managed, specialized business units provide exceptional products and services. Unlike competitors with fewer resources, we can spend a significant amount of our high cash flow to deliver superb yet prudent product innovations. Above all, one of our greatest strengths is a corporate culture that stresses professional excellence and that delivers the highest quality service to our customers.

We have been fortunate to have a stable team of experienced, capable managers supporting this corporate culture. We have the additional advantage of a talented and experienced board of directors. This past year saw some changes in our board. We and the entire information



services industry feel an immense loss from the death of Milton R. Wessel, a widely acknowledged legal and business expert in our industry. We also are thankful for the service and input of Ronald C. Carroll, Chairman and Chief Executive Officer of The Continuum Company, who did not stand for reelection. Four new directors were elected to our board: Gregory S. Bentley, the former chief executive and one of the founders of our subsidiary, Devon Systems International, Inc.; Albert A. Eisenstat, a director and senior executive with Apple Computer, Inc.; Michael Roth, an outstanding attorney long associated with the computer industry; and Lawrence J. Schoenberg, the founder and former chairman of AGS Computers, Inc. We look forward to their contributions in 1992 and beyond.



The year 1991 was one of challenges. Together, the management of SunGard and our nearly 1,700 employees worked to meet those challenges. We believe that in 1992 you will see the positive results of those efforts as we continue to take full advantage of our significant corporate strengths in order to achieve our growth potential.

Respectfully,

A handwritten signature in dark ink that reads "James L. Mann".

James L. Mann
Chairman, President and
Chief Executive Officer



March 18, 1992



**MAINTAINING
MARKET LEADERSHIP
THROUGH GREATER
PRODUCT RESOURCES**

Succeeding in today's rapidly changing global business environment means organizations must make correct business decisions with a limited amount of information. For the very

largest multinational financial and industrial companies, having timely access to and an ability to process information is increasingly the most critical factor in their success. To manage in this environment, these organizations seek the most technologically current information systems that provide the functionality they need to compete.

Successful vendors such as SunGard have a credibility with customers that is earned through consistent performance. SunGard's distinct competitive advantage is having superior resources available to supply the comprehensive information system solutions required in its markets. Through both expert internal development and a successful strategy of acquisition, the breadth of SunGard's products and services is unique. SunGard combines its unique resources with an emphasis on excellence to provide a very high level of performance.

SunGard's richness of product resources provides an advantage over the competition. SunGard's goal is to use its resources to continue to deliver superb, prudent technical innovation. SunGard's financial strength allows it each year to reinvest significantly in its products and services. Through innovative product development, product enhancement and product unification, SunGard is best able to provide the complete, complex, mission-critical information solutions its customers need.

In a short period of time SunGard has become the market leader in most of the markets it serves. SunGard is committed to applying its financial resources to the continued development of its products. SunGard also is committed to providing exceptional customer service through an insistence on professional excellence and quality. By continuing to leverage its resources and deliver outstanding performance, SunGard is confident it will maintain its market leadership.

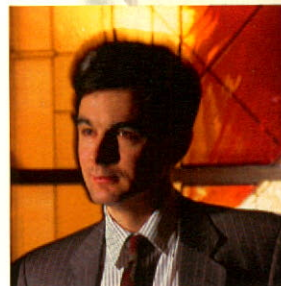




SunGard is the only software and services company that provides in-depth coverage of virtually all financial instruments, with products for trading, risk management, back office and accounting and with quality support throughout a global organization. In the U.S., SunGard is the premier provider of systems for cash-based securities for banks and other money managers. Worldwide, SunGard has built an extensive lead in the market for derivative systems through the Devon System.

International capital markets trading desks are seeking consistent approaches to risk management. Trading desks are being consolidated into global books that span securities, swaps, options and other derivatives. SunGard's recent investment in LOR/Geske Bock Associates, a preeminent provider of advanced financial models and analytics, is one important way that SunGard has added to its product offerings to help clients achieve that consistency. In the longer term, SunGard plans to provide the most comprehensive capital markets solutions for the international marketplace. By unifying its products and using the extensive worldwide network developed for the Devon System, SunGard intends to capture a greater share of the international investment support systems market.

In its markets, only SunGard has the resources to provide such comprehensive unification of its products to meet clients' total needs worldwide. SunGard's ability to create such development projects is an advantage that is due to its successful strategy of becoming the only large specialized provider of investment support systems.



"The greatest challenge today is the integration of risk management across all our trading activities. The selection of SunGard's Devon System for our London operation reflects their success in this area, and we look forward to other developments by SunGard in the future."

MICHAEL REES
CHIEF FINANCIAL OFFICER
STANDARD CHARTERED BANK
LONDON, ENGLAND

INTERNATIONAL CAPITAL
MARKETS SOLUTIONS



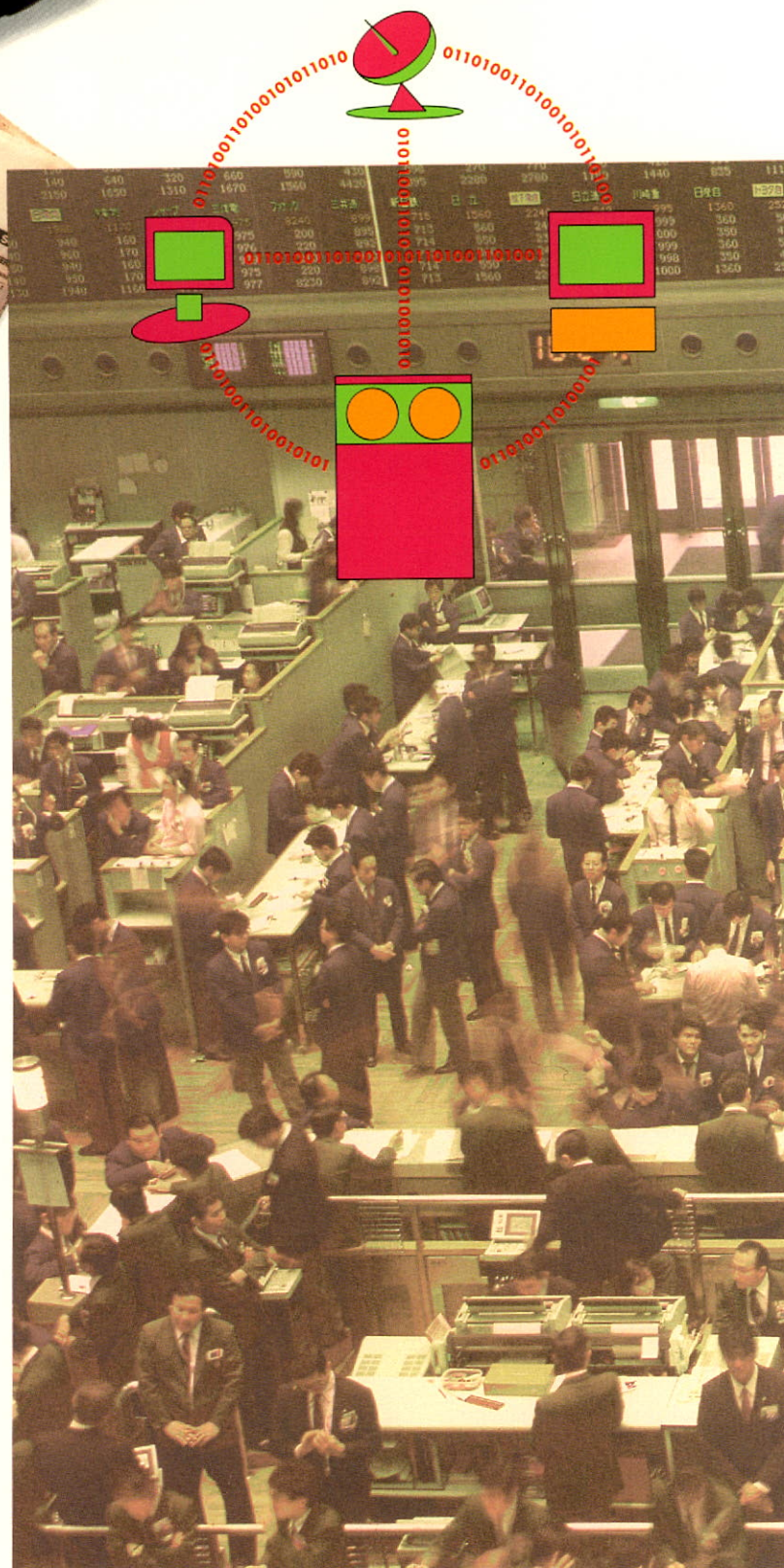
"We have a very large securities trading operation. Our goal is to process securities transactions at reduced cost and with improved controls for a growing number of investment products."

JOHN LLOYD

EXECUTIVE VICE PRESIDENT

BANK OF AMERICA

SAN FRANCISCO, CALIFORNIA

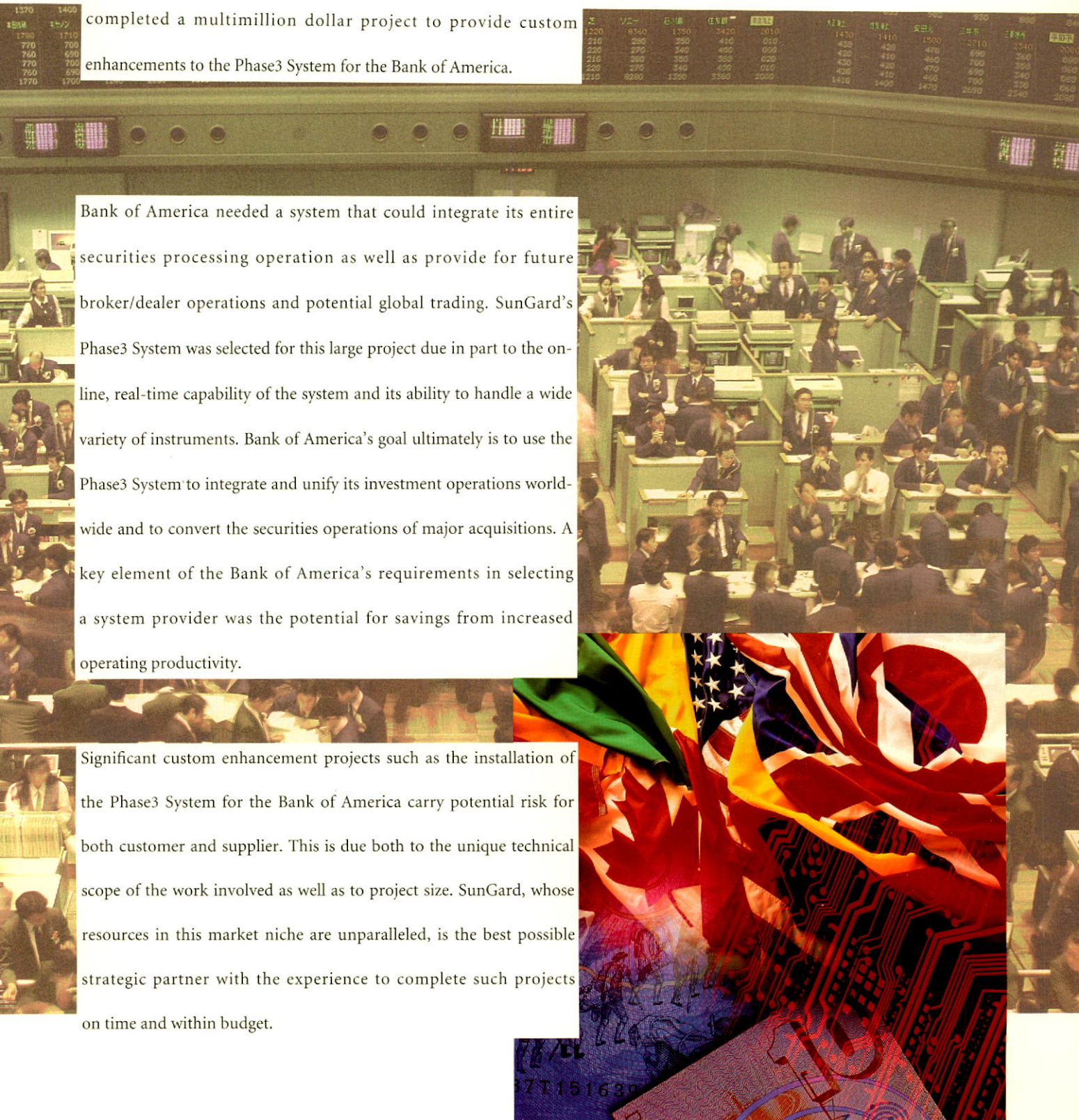


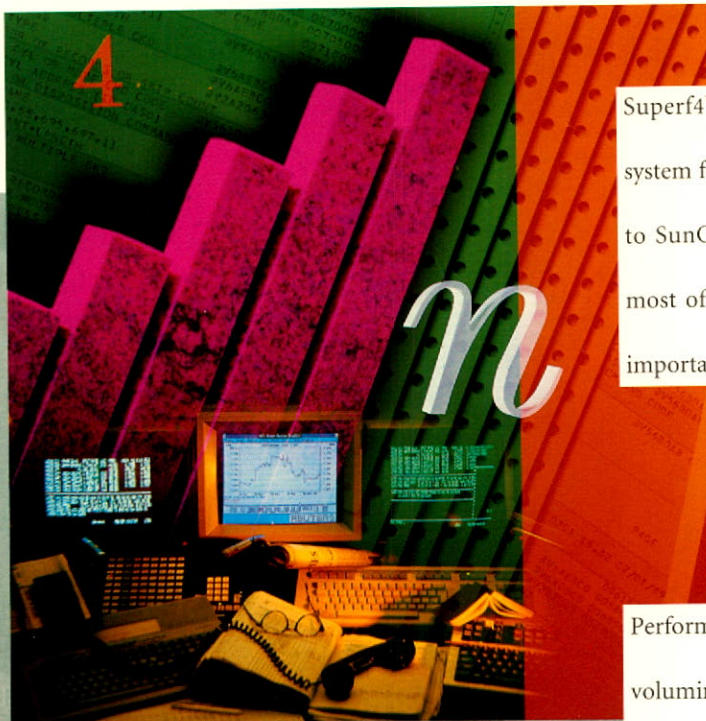
PHASE 3 SYSTEM

SunGard's Phase3® System is an industry-leading securities processing system for large banks and brokerage firms. In the past year, SunGard completed a multimillion dollar project to provide custom enhancements to the Phase3 System for the Bank of America.

Bank of America needed a system that could integrate its entire securities processing operation as well as provide for future broker/dealer operations and potential global trading. SunGard's Phase3 System was selected for this large project due in part to the on-line, real-time capability of the system and its ability to handle a wide variety of instruments. Bank of America's goal ultimately is to use the Phase3 System to integrate and unify its investment operations worldwide and to convert the securities operations of major acquisitions. A key element of the Bank of America's requirements in selecting a system provider was the potential for savings from increased operating productivity.

Significant custom enhancement projects such as the installation of the Phase3 System for the Bank of America carry potential risk for both customer and supplier. This is due both to the unique technical scope of the work involved as well as to project size. SunGard, whose resources in this market niche are unparalleled, is the best possible strategic partner with the experience to complete such projects on time and within budget.





Superf4™ is SunGard's global, on-line performance measurement system for investment managers. This system is a recent enhancement to SunGard's leading performance measurement product used by most of the largest banks in the United States. The purpose of this important analytical tool is to measure rates of return and risk.

Performance measurement is very quantitative, historically involving voluminous computer reports that detail the numerous statistics that define investment return. Market movements in the complex global securities market are rapid and potentially volatile. Portfolio managers now have an even greater need to understand both portfolio performance as well as critical portfolio risks through the use of "what-if" scenarios.

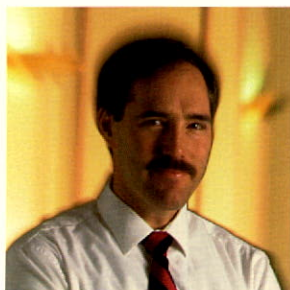
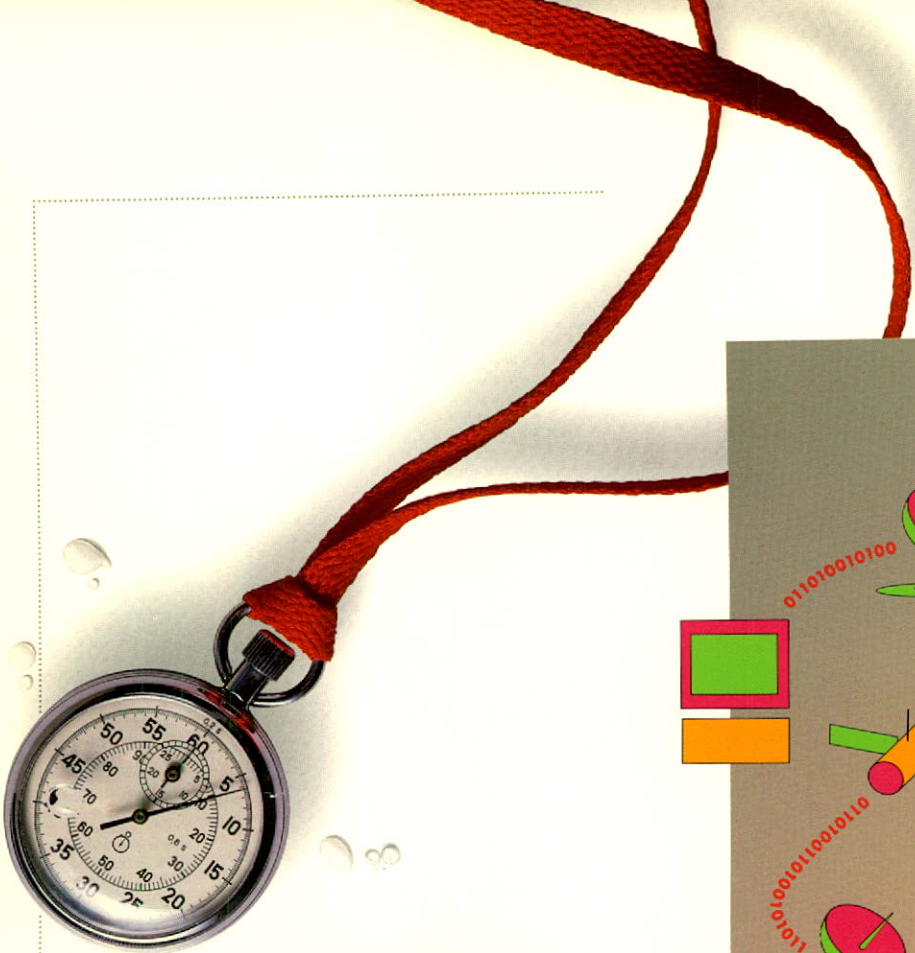
Spectra, a new SunGard presentation tool that works interactively with Superf4, uses graphical user interface technology to add a Windows-based front-end to the mainframe-based Superf4 product. This enhancement fundamentally improves system access by bringing the performance data and the ability to manipulate the data closer to users. Spectra provides fingertip access to portfolio information in a variety of formats. This enhancement, which also is being applied to other SunGard investment support products, is a key example of SunGard's ability to apply existing technology in innovative, meaningful ways to improve customer productivity.



"As a premier provider of portfolio management services to investment plan sponsors, we continually seek new information tools to improve productivity. What we look for in a vendor is the ability to provide enhancements to our existing products and services that will better help us sell these services to our clients."

TIMOTHY DRISCOLL
VICE PRESIDENT
NATIONAL CITY CORPORATION
CLEVELAND, OHIO

SUPERF4-SPECTRA



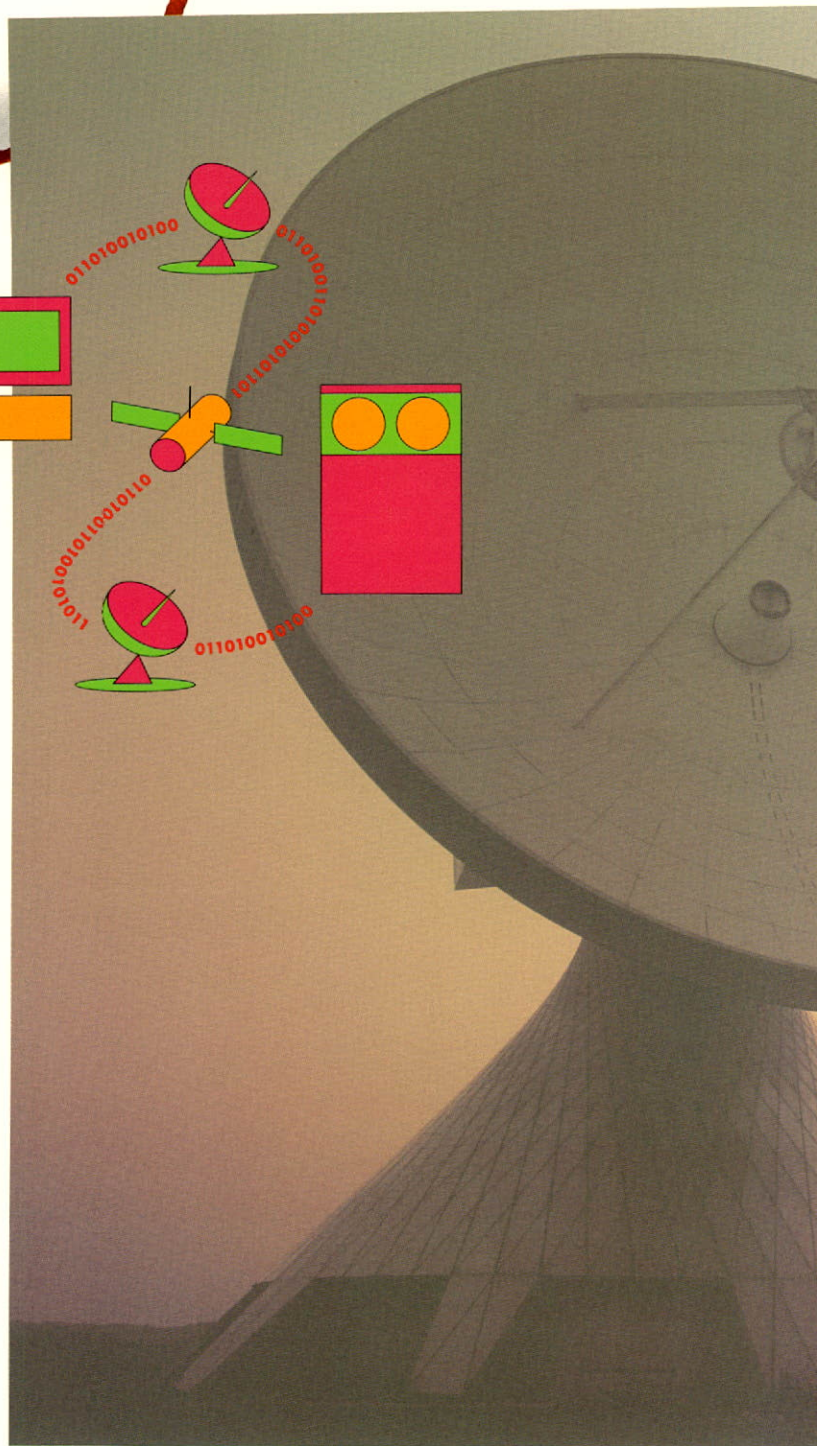
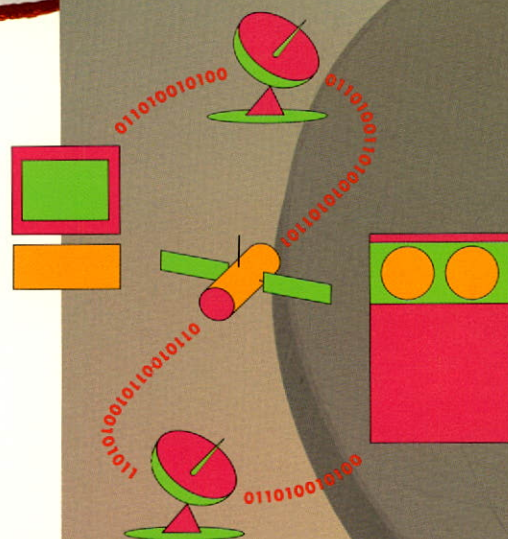
"Distributed processing has become more and more important to the operation of our business, such that the control of traffic through our rail yards depends on our midrange computer applications. We see both the need and the value of a midrange computer backup capability that is as comprehensive as the backup of our mainframes. From SunGard, we get both."

BRUCE FARR

LEAD CONTINGENCY ANALYST

BURLINGTON NORTHERN RAILROAD

MINNEAPOLIS, MINNESOTA



MIDRANGE DISASTER
RECOVERY SOLUTIONS

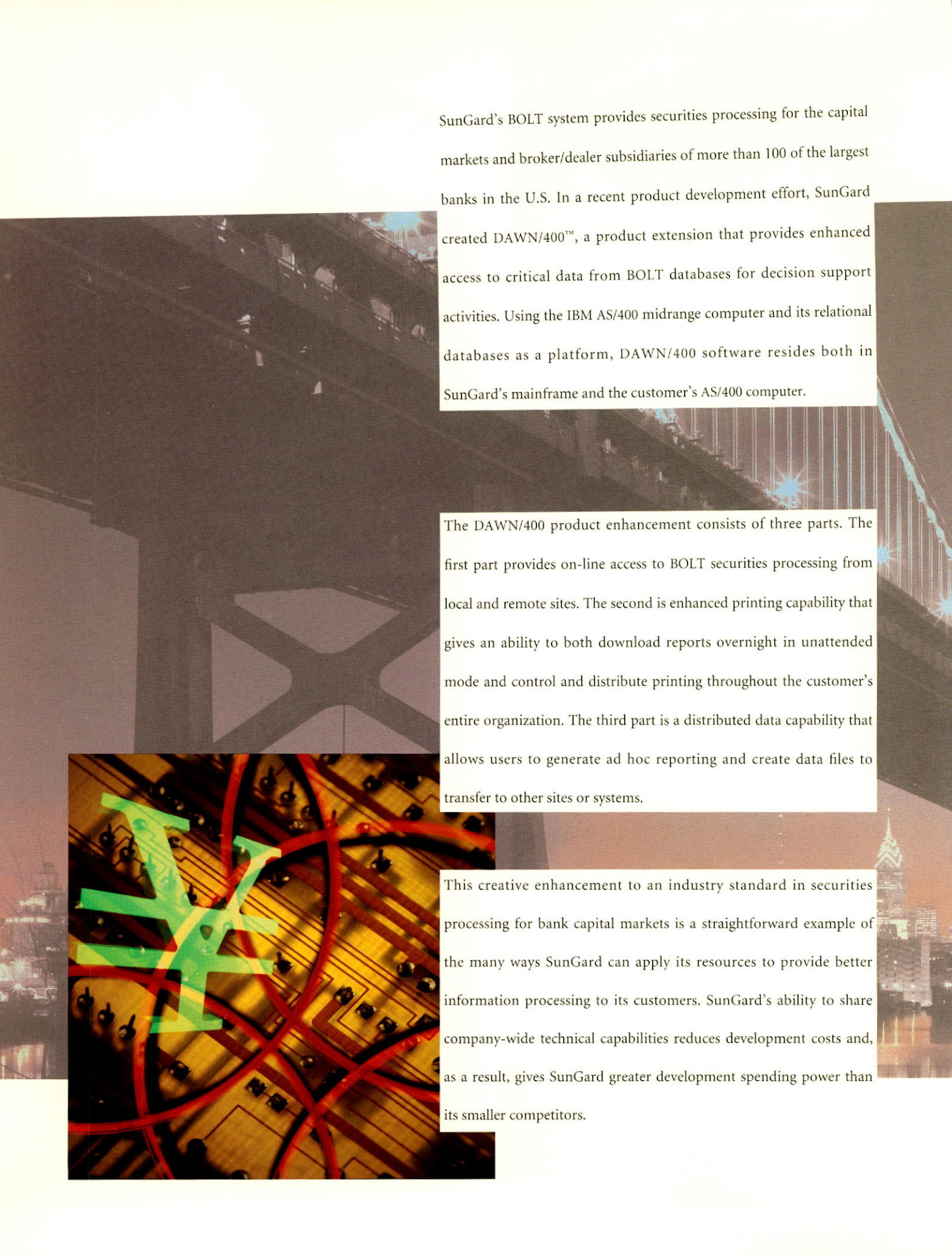
The performance distinction continues to blur between mainframe and midrange computers. The use of midrange computers continues to grow rapidly. For SunGard, an important product development goal has been to ensure that it maintains its position as the single-source provider of disaster recovery services for both single- and multiple-platform subscribers. To that end, SunGard has implemented recovery services not only for IBM and Unisys mainframe computers, but also for IBM, DEC, Tandem, Stratus, Hewlett Packard and Prime midrange computers as well.



Recognizing the increased demand for disaster recovery by midrange computer users, SunGard recently initiated a program to increase its midrange capability. SunGard more than doubled its Tandem offering and tripled the number of AS/400 systems available for subscriber utilization. Anticipating the increased need for DEC recovery services, SunGard this past year acquired the disaster recovery division of National Computer Systems, nearly tripling SunGard's DEC recovery capability and making SunGard the largest provider of DEC recovery services in the industry.

This product expansion program enables SunGard to provide more than two dozen hotsites in its midrange product line. Long known as the leader in disaster recovery product innovation, SunGard has a long-term commitment to maintain its product edge. The recent, continued investment in SunGard's midrange disaster recovery product line illustrates that commitment.

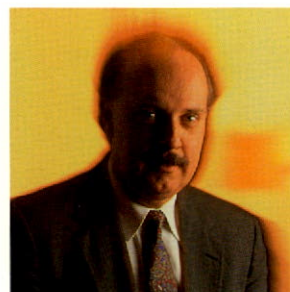
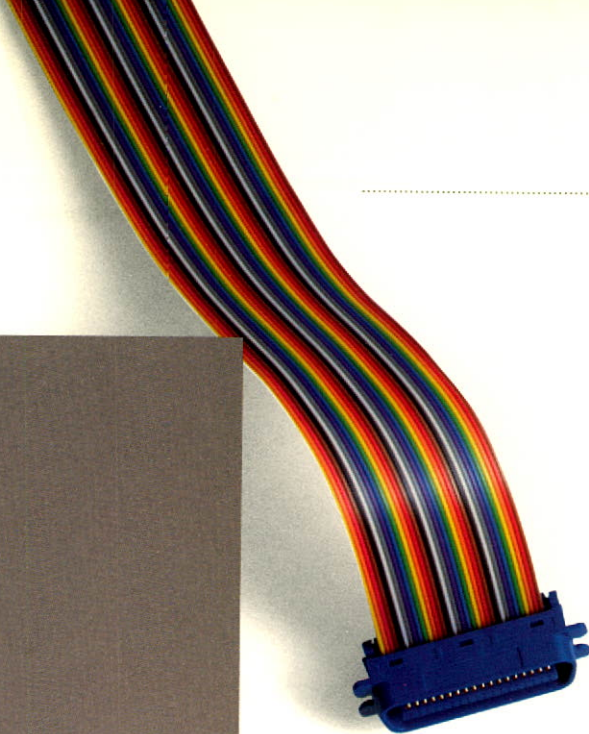




SunGard's BOLT system provides securities processing for the capital markets and broker/dealer subsidiaries of more than 100 of the largest banks in the U.S. In a recent product development effort, SunGard created DAWN/400™, a product extension that provides enhanced access to critical data from BOLT databases for decision support activities. Using the IBM AS/400 midrange computer and its relational databases as a platform, DAWN/400 software resides both in SunGard's mainframe and the customer's AS/400 computer.

The DAWN/400 product enhancement consists of three parts. The first part provides on-line access to BOLT securities processing from local and remote sites. The second is enhanced printing capability that gives an ability to both download reports overnight in unattended mode and control and distribute printing throughout the customer's entire organization. The third part is a distributed data capability that allows users to generate ad hoc reporting and create data files to transfer to other sites or systems.

This creative enhancement to an industry standard in securities processing for bank capital markets is a straightforward example of the many ways SunGard can apply its resources to provide better information processing to its customers. SunGard's ability to share company-wide technical capabilities reduces development costs and, as a result, gives SunGard greater development spending power than its smaller competitors.



"The new functionality of DAWN/400 allows Norwest to take data from separate systems, combine the data and present it to our customers in a consolidated, professional statement. The system also has allowed us to automate and standardize operations from recent acquisitions. Without it, we would not have realized cost savings in our bank consolidations nor conducted business without impact on our customers during the transition."

JERRY HAMLIN
SENIOR VICE PRESIDENT
NORWEST INVESTMENT SERVICES, INC.
MINNEAPOLIS, MINNESOTA

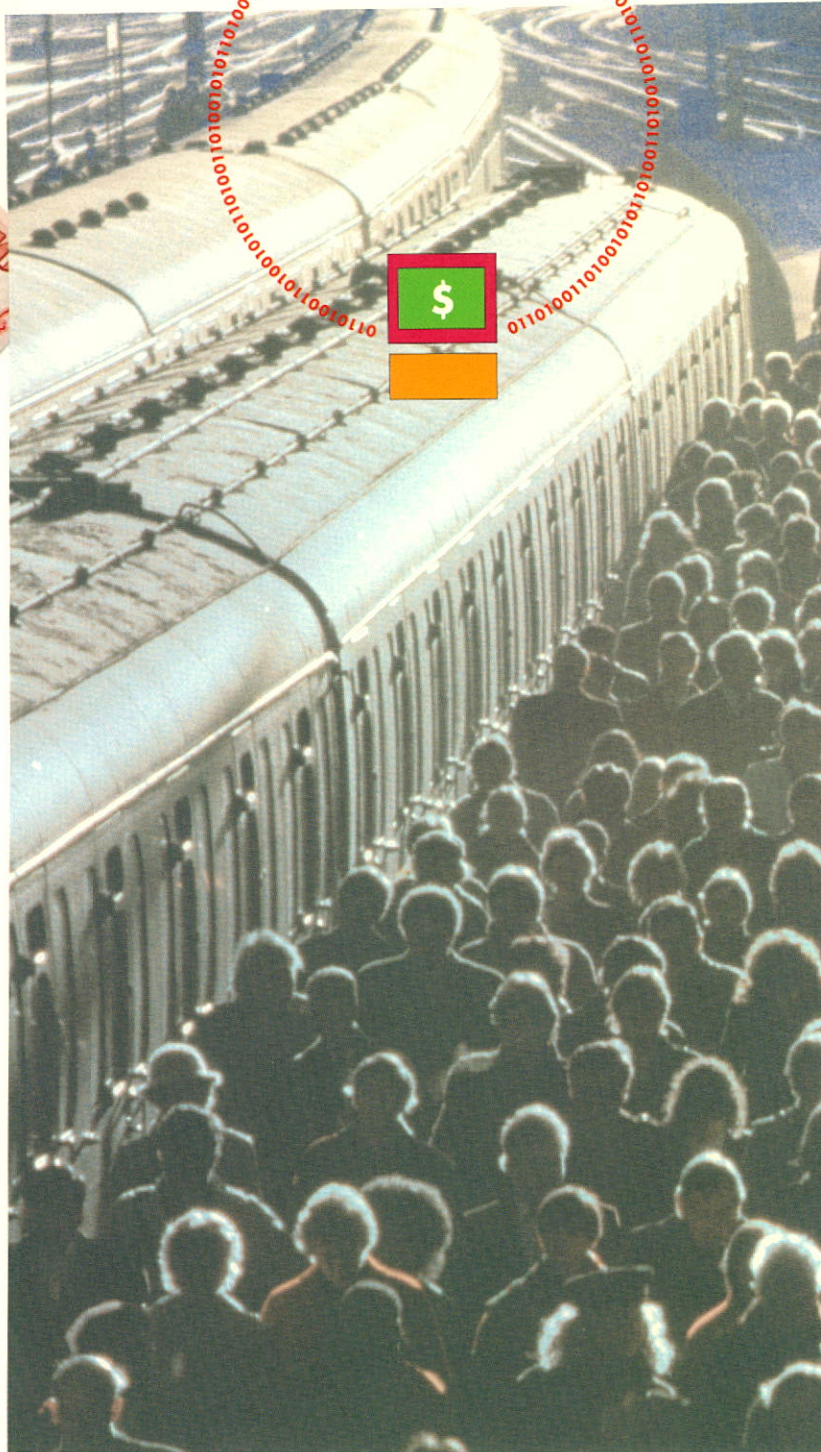
DAWN/400



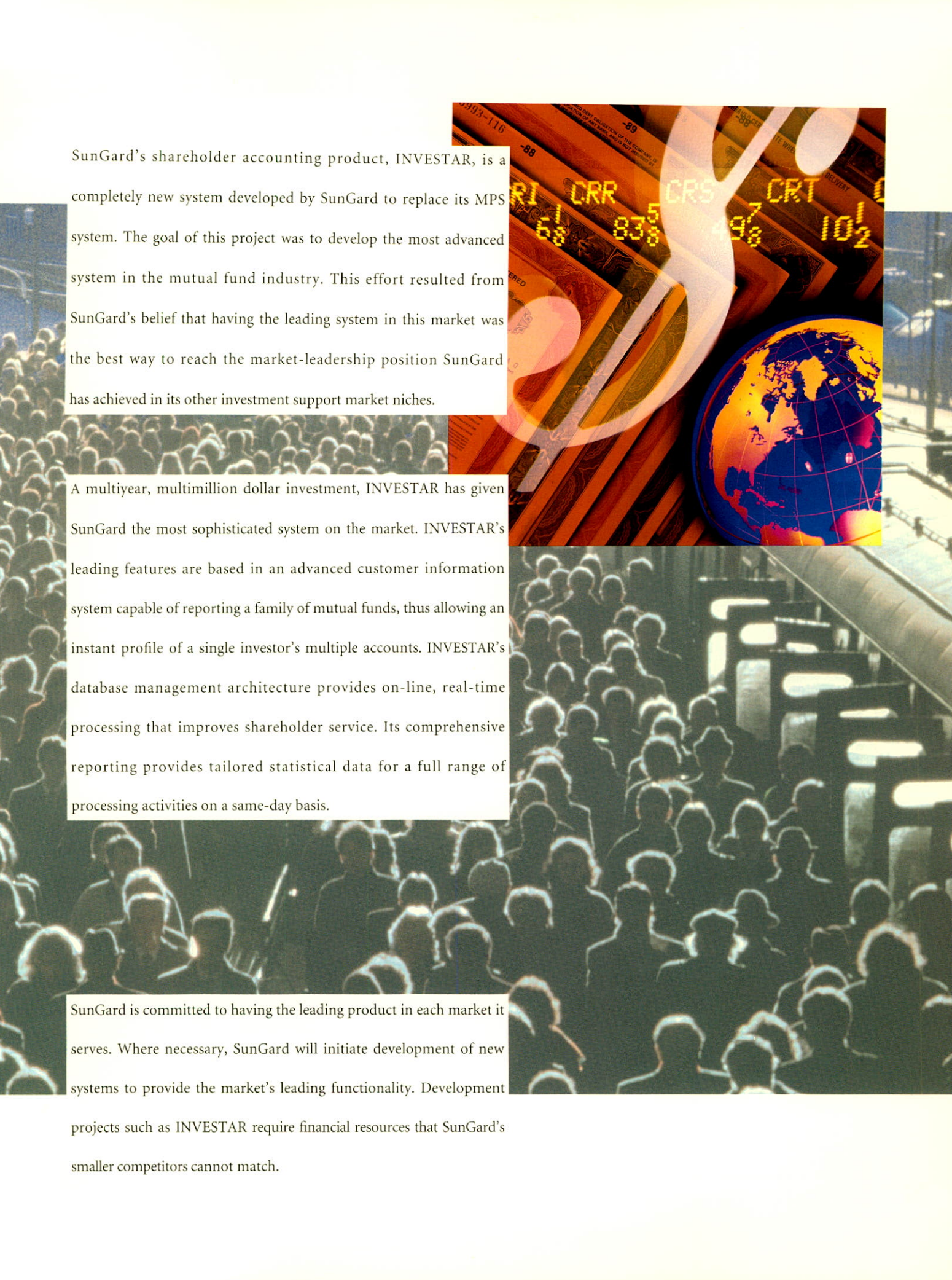


“Operationally, INVESTAR’s Customer Information File will provide our service representatives with an instant profile of shareholders’ accounts. Strategically, INVESTAR’s real-time transaction processing features and database architecture permit us to post, update and report client activity immediately, while positioning ourselves to accommodate twenty-four hour, global trading.”

DAVID SCHEURING
PRESIDENT
DELAWARE SERVICE COMPANY, INC.
THE DELAWARE GROUP
PHILADELPHIA, PENNSYLVANIA



I N V E S T A R



SunGard's shareholder accounting product, INVESTAR, is a completely new system developed by SunGard to replace its MPS system. The goal of this project was to develop the most advanced system in the mutual fund industry. This effort resulted from SunGard's belief that having the leading system in this market was the best way to reach the market-leadership position SunGard has achieved in its other investment support market niches.

A multiyear, multimillion dollar investment, INVESTAR has given SunGard the most sophisticated system on the market. INVESTAR's leading features are based in an advanced customer information system capable of reporting a family of mutual funds, thus allowing an instant profile of a single investor's multiple accounts. INVESTAR's database management architecture provides on-line, real-time processing that improves shareholder service. Its comprehensive reporting provides tailored statistical data for a full range of processing activities on a same-day basis.

SunGard is committed to having the leading product in each market it serves. Where necessary, SunGard will initiate development of new systems to provide the market's leading functionality. Development projects such as INVESTAR require financial resources that SunGard's smaller competitors cannot match.



“SunGard is committed to using its unique resources to meet the existing and future global information solutions needs of its customers, with the highest level of professional excellence and quality service...”

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Quarterly Financial Information (unaudited)

In thousands, except per share amounts

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1991:				
Revenues	\$ 67,932	\$ 68,477	\$ 71,839	\$ 75,302
Income before income taxes	8,370	9,048	9,990	10,926
Net income	4,687	5,067	5,594	6,119
Net income per common share:				
Primary .....	.31	.33	.36	.40
Fully diluted .....	.31	.32	.35	.38
1990:				
Revenues	\$ 58,304	\$ 66,753	\$ 65,748	\$ 71,303
Income before income taxes	7,584	9,614	9,041	10,342
Net income	4,399	5,585	5,129	5,367
Net income per common share:				
Primary .....	.29	.37	.34	.35
Fully diluted .....	.29	.36	.33	.34

Stock Information

The common stock of SunGard Data Systems Inc. is traded in the National Over-the-Counter (OTC) Market and is reported on the NASDAQ National Market System under the symbol SNDT. At March 18, 1992, the Company had approximately 1,700 stockholders of record. No dividends have ever been paid on the Company's common stock. The Company's policy is to retain earnings for use in its business.

The following table indicates high and low sales prices per share for the Company's common stock, as reported by NASDAQ.

Calendar Year 1990:

First Quarter	\$ 26	\$ 18 1/4
Second Quarter	24 3/4	18
Third Quarter	26	15 1/4
Fourth Quarter	17 1/4	9 1/2

Calendar Year 1991:

First Quarter	\$ 15 3/4	\$ 9 7/8
Second Quarter	18 1/4	14 1/2
Third Quarter	17 1/2	14
Fourth Quarter	20 1/2	13 1/2

The last sale price for the Company's common stock on March 18, 1992, as reported by NASDAQ, was \$22 1/4 per share.

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

Results of Operations:

The following table sets forth, for the periods indicated, certain amounts included in the Consolidated Statements of Income of SunGard Data Systems Inc., the respective percentage that those amounts bear to consolidated revenues (unless otherwise indicated), and the percentage change in those amounts from period to period.

	Year ended December 31, (in millions)			Percent of Revenues (1) Year Ended December 31,			Percent Increase (Decrease) (1)	
	1991	1990	1989	1991	1990	1989	1991 vs. 1990	1990 vs. 1989
Revenues:								
Investment support systems	\$ 165.4	\$ 151.7	\$ 99.2	58 %	58 %	49 %	9 %	53 %
Disaster recovery services	83.5	74.8	64.7	29	28	32	12	16
Computer services and other	34.6	35.6	37.2	13	14	19	(3)	(4)
	<u>\$ 283.5</u>	<u>\$ 262.1</u>	<u>\$ 201.1</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>8</u>	<u>30</u>
Costs and expenses:								
Cost of sales and direct operating	\$ 140.5	\$ 127.5	\$ 101.0	50 %	49 %	50 %	10 %	26 %
Sales, marketing and administration (2)	59.6	56.1	46.1	21	22	23	6	22
Product development	13.4	13.8	10.3	5	5	5	(3)	33
Depreciation	15.2	13.2	8.6	5	5	4	15	54
Amortization	12.3	11.2	7.1	4	4	4	10	59
	<u>\$ 241.0</u>	<u>\$ 221.8</u>	<u>\$ 173.1</u>	<u>85 %</u>	<u>85 %</u>	<u>86 %</u>	<u>9</u>	<u>28</u>
Income from operations (operating margin):								
Investment support systems (3)	\$ 36.0	\$ 33.7	\$ 24.7	22 %	22 %	25 %	7 %	36 %
Disaster recovery services (3)	8.0	7.4	4.9	10	10	8	9	50
Computer services and other (3)	4.4	4.0	1.8	13	11	5	11	122
Corporate administration (2)	(5.9)	(4.8)	(3.4)	(2)	(2)	(2)	27	39
	<u>\$ 42.5</u>	<u>\$ 40.3</u>	<u>\$ 28.0</u>	<u>15</u>	<u>15</u>	<u>14</u>	<u>5</u>	<u>44</u>

(1) All percentages are calculated using actual amounts rounded to the nearest \$1,000. (2) Includes merger costs. (3) Percent of revenues is calculated as a percent of investment support systems, disaster recovery services and computer services and other revenues, respectively.

Income from Operations:

INVESTMENT SUPPORT SYSTEMS (ISS):

The primary reason that the ISS operating margins declined slightly in 1991 and 1990 is a change in the mix of ISS revenues. Software license revenues, which typically have higher margins than processing revenues, were a smaller component of total ISS revenues in 1991 and 1990 than in 1989. The primary reasons for this are the February 1990 acquisition of Warrington Financial Systems Inc. (WFS), which significantly increased the remote processing component of ISS revenues, and a \$4.5 million, or 19%, decrease in software license revenues in 1991. The Com-

pany expects that the ISS operating margin will improve somewhat in 1992 because software license revenues are expected to increase compared to 1991.

DISASTER RECOVERY SERVICES (DRS):

Although the Company expanded its Philadelphia MegaCenter in January 1991, the DRS operating margin in 1991 remained unchanged from 1990. The improvement in the DRS operating margin in 1990 compared to 1989 is attributable primarily to higher capacity utilization in each of the Company's disaster recovery centers. The Company expects

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

that the DRS operating margin will remain relatively constant in 1992 due to competition and ongoing capital requirements.

COMPUTER SERVICES AND OTHER (CS):

CS operating margins have fluctuated in part because of the impact of royalties associated with the Company's sale of its CARS/36 software product to Electronic Data Systems Corporation (EDS) (see Note 9 of Notes to Consolidated Financial Statements). Excluding the impact of these royalties, CS operating margins would have been approximately 8% in 1991, 7% in 1990 and 3% in 1989. The improvement in 1990, and to a lesser degree in 1991, is attributable primarily to cost reductions implemented in response to continued revenue declines in the CARS product line.

Revenues:

Total revenues increased \$21.4 million and \$61.0 million in 1991 and 1990, respectively. Approximately 49% of the 1991 increase is attributable to a 16% increase in recovery services revenues. The acquisitions of WFS and Phase3 Systems Inc. (Phase3) during 1990 and the inclusion of Money Management Systems, Inc. (MMS) for a full year account for 75% of the increase in 1990 revenues. Recurring revenues — those derived from remote processing services, disaster recovery services, and software maintenance and rentals — increased to approximately \$235 million, or 83% of consolidated 1991 revenues, from approximately \$213 million, or 81% of consolidated 1990 revenues, and \$157 million, or 78% of consolidated 1989 revenues. This percentage increased in 1991 due primarily to the inclusion of WFS for a full year in 1991 and a net decrease in revenues from software license fees and professional services in 1991. This percentage increased in 1990 due primarily to the acquisition of WFS, which had recurring revenues of approximately 91%.

INVESTMENT SUPPORT SYSTEMS:

ISS revenues increased \$13.7 million and \$52.5 million in 1991 and 1990, respectively. The inclusion of WFS for a full year accounts for 50% of the 1991 increase, and the acquisitions of Phase3, WFS and MMS account for 87% of the 1990 increase.

Revenues from derivative instrument systems increased \$2.3 million and \$5.2 million, or 8% and 23%, in 1991 and 1990, respectively. Software license revenues decreased \$1.7 million, or 12%, during 1991 after increasing \$665,000, or 5%, during 1990. The decrease in 1991 software license revenues is due to a lower rate of growth in new foreign markets for the Company's derivative instrument products. Software maintenance revenues in-

creased \$3.3 million, or 32%, in 1991 and \$3.7 million, or 58%, in 1990, primarily as a result of the respective prior year's license sales. The Company expects software maintenance revenues to continue growing, but at a slower rate due to the 1991 decrease in software license revenues.

During 1991, other investment accounting and portfolio management systems as well as trust and employee benefit systems accounted for \$5.6 million of the increase in ISS revenues, which was offset in part by a \$1.0 million decrease in revenues from shareholder accounting systems. An increase in professional services revenues is the primary reason for the 1991 net increase of \$4.6 million. A \$2.7 million decrease in software license revenues in 1991 was offset in part by a \$1.6 million increase in software maintenance revenues and a modest increase in data processing revenues. During 1990, trust, employee benefit and shareholder accounting systems accounted for \$1.5 million of the increase in ISS revenues. Increases in software maintenance revenues, the number of processing customers and processing volumes of existing customers comprised \$4.9 million of this increase, which was offset in part by a \$3.4 million decrease in revenues derived from license sales and related professional services.

The Company expects that ISS revenues will increase modestly in 1992, but they may continue to be affected by financial institutions and other investment managers evaluating expenditures at greater length in light of their own financial situations and concerns about general economic conditions. Furthermore, some of the large banks that announced mergers in 1991 are customers of the Company. Some published opinions predict that mergers will continue to occur in the banking industry, but the Company is not yet able to predict whether this apparent trend will continue. The Company believes that announced and future bank mergers will result in some lost revenues, but also will result in some sales of additional services, so that the Company is not yet able to assess the overall net impact on its business.

DISASTER RECOVERY SERVICES:

DRS revenues increased \$8.7 million and \$10.1 million in 1991 and 1990, respectively, due primarily to net increases in the number of contracts, additional services sold to existing customers and, to a lesser extent, price increases. The 1991 increase is comprised of a \$10.5 million, or 16%, increase in recovery services revenues, offset in part by a \$1.7 million decrease in software license and professional services revenues. In 1990, software license and professional services revenues remained unchanged from the 1989 level of \$7.5 million.

During 1991, the Company experienced a significant increase in DRS revenues from new contracts compared to 1990, offset in part by a significant increase in DRS revenues lost to data center closings and consolidations. Also in 1991, DRS revenues lost as a result of competition from IBM were lower than in 1990, but total DRS revenues lost as a result of competition increased. The Company is unable to determine whether these apparent trends will continue and, if so, for how long.

COMPUTER SERVICES AND OTHER:

CS revenues decreased \$1.0 million and \$1.6 million in 1991 and 1990, respectively. Revenues from automotive dealer management systems decreased \$1.0 million and \$2.1 million, or 7% and 13%, in 1991 and 1990, respectively, due primarily to decreases in the number of processing customers, lower processing volumes of existing customers and lower equipment sales. The decreases in automotive dealer management systems revenues in 1991 and 1990 were offset in part by an increase in royalties from EDS (see Note 9 of Notes to Consolidated Financial Statements).

The Company expects that CS revenues will decrease slightly in 1992 as the result of the 1991 sale of a small, unprofitable product line, but the CS operating margin should remain approximately the same. The Company is unable to predict what royalties it will receive from EDS.

Costs and Expenses:

Cost of sales and direct operating expenses increased \$13.0 million and \$26.5 million in 1991 and 1990, respectively. Approximately 21% of the increase in 1991 and 74% of the increase in 1990 are attributable to acquired businesses. The increase in cost of sales and direct operating expenses as a percent of 1991 revenues is due primarily to the additional costs associated with the Company's expansion of its Philadelphia MegaCenter in January 1991 and to lower software license revenues, which have minimal direct costs. The decline in cost of sales and direct operating expenses as a percent of 1990 revenues is attributable primarily to the relatively lower costs of providing ISS products and services compared to DRS services and, to a lesser extent, to staff and other cost reductions associated with CS products and services.

Sales, marketing and administration expenses increased \$3.5 million and \$10.0 million in 1991 and 1990, respectively. Approximately 23% of the increase in 1991 and 79% of the increase in 1990 are attributable to acquired businesses. Excluding the

effect of merger costs from 1990 and 1989, sales, marketing and administration expenses were 21% of revenues in both 1991 and 1990 compared to 22% of revenues in 1989. The slightly higher percentage in 1989 is attributable primarily to an increase in selling costs associated with an expansion of the DRS sales force and the higher sales volume of derivative instrument systems.

Product development expense decreased \$396,000 in 1991 and increased \$3.5 million in 1990. Approximately 94% of the increase in 1990 is attributable to acquired businesses. Product development expense for derivative instrument systems increased \$1.3 million and \$1.6 million in 1991 and 1990, respectively, while spending on other products declined. The decreased expense for other products in 1991 and 1990 is due to lower spending levels, completion of certain projects and the timing of capitalization of development costs. Development costs capitalized aggregated \$345,000, \$1.0 million and \$1.3 million in 1991, 1990 and 1989, respectively.

Depreciation of property and equipment increased \$2.0 million and \$4.7 million in 1991 and 1990, respectively. Approximately 77% of the increase in 1990 is attributable to acquired businesses. The increase in 1991 and the balance of the 1990 increase are attributable primarily to DRS capital expenditures.

Amortization of intangible assets increased \$1.1 million and \$4.1 million in 1991 and 1990, respectively. Substantially all of each increase is attributable to acquired businesses.

The increases in interest income in 1991 and 1990 are attributable primarily to higher invested balances and, in 1990, to higher average interest rates.

Interest expense increased \$793,000 and \$4.8 million in 1991 and 1990, respectively. The increase in 1991 is attributable to a full year of interest on the Company's \$86.25 million convertible subordinated debentures (the Debentures), while the increase in 1990 is attributable primarily to the May 1990 offering of the Debentures and to a short-term bank loan.

The Company's effective tax rate was 44% in 1991 and 1990 compared to 39% in 1989. The rate in 1989 reflects the benefit of research and development credits that were not available to the Company in 1991 and 1990. The rates in 1990 and 1989 also reflect the negative tax impact of merger costs associated with the acquisitions of Phase3 and Dyatron Corporation, respectively. Excluding all of these items, the pro forma effective tax rates would have been approximately 44%, 43% and 40% for 1991, 1990 and 1989, respectively. The increases in the 1991 and 1990

pro forma effective tax rates are due primarily to an increase in nondeductible amortization associated with acquired businesses. (See Note 8 of Notes to Consolidated Financial Statements).

The Company believes that its business is not seasonal. Nevertheless, the timing and magnitude of software sales, commitments for equipment and facilities, and product development efforts may cause profitability to fluctuate from one quarter to another.

The Company believes that inflation has not had a material impact on the results of operations to date.

Liquidity and Capital Resources:

Cash flow from operations decreased \$7.6 million in 1991 due primarily to an increase in working capital requirements associated with certain development contracts and to unusually high receivable collections in 1990.

1991 financing activities resulted in net expenditures of \$22.4 million as the Company made its final payment of \$20.0 million to satisfy purchase price obligations related to the 1987 acquisition of Devon Systems International, Inc.

Capital expenditures in 1991 were essentially the same as in 1990. The Company's capital spending for property, equipment and software during 1992 is expected to approximate 1991 spending.

At December 31, 1991, cash and short-term investments aggregated \$69.5 million. Of that amount, the Company expects to use \$20.5 million in the second quarter of 1992 to complete its recently announced acquisition of Shaw Data Services, Inc. (Shaw). The Company could pay up to an additional \$15.0 million in connection with the acquisition of Shaw depending upon the level of Shaw's profits in the three-year period following closing.

At December 31, 1991, the Company's remaining commitments consisted primarily of operating leases for computer equipment and facilities aggregating \$90.0 million, of which \$30.1 million is due in 1992. The Company believes that its existing cash resources and cash generated from operations will be sufficient to meet its operating, capital spending and debt service requirements.

Report of Independent Accountants

To the Board of Directors and Stockholders
SunGard Data Systems Inc.

We have audited the accompanying consolidated balance sheets of SunGard Data Systems Inc. and subsidiaries as of December 31, 1991 and 1990, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of a material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SunGard Data Systems Inc. and subsidiaries as of December 31, 1991 and 1990, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND

2400 Eleven Penn Center
Philadelphia, Pennsylvania
February 6, 1992

Consolidated Statements of Income

In thousands, except per share amounts

	Year Ended December 31,		
	1991	1990	1989
Revenues	\$ 283,550	\$ 262,108	\$ 201,093
Costs and expenses:			
Cost of sales and direct operating	140,541	127,508	101,024
Sales, marketing and administration	59,638	55,297	45,083
Product development	13,400	13,796	10,343
Depreciation of property and equipment	15,165	13,231	8,572
Amortization of intangible assets	12,315	11,218	7,074
Merger costs	—	728	975
	241,059	221,778	173,071
Income from operations	42,491	40,330	28,022
Interest income	3,903	3,518	2,742
Interest expense	(8,060)	(7,267)	(2,504)
Income before income taxes	38,334	36,581	28,260
Provision for income taxes	16,867	16,101	11,141
Net income	\$ 21,467	\$ 20,480	\$ 17,119
Net income per common share:			
Primary	\$ 1.40	\$ 1.35	\$ 1.22
Fully diluted	\$ 1.36	\$ 1.34	\$ 1.22
Weighted-average common and common-equivalent shares outstanding:			
Primary	15,375	15,174	14,061
Fully diluted	18,720	17,191	14,061

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

Consolidated Balance Sheets

In thousands, except per share amounts

	December 31,	
	1991	1990
<i>Assets</i>		
<i>Current:</i>		
Cash and equivalents	\$ 56,128	\$ 71,489
Short-term investments, at cost, which approximates market	13,371	—
Trade receivables, less allowance for doubtful accounts of \$3,441 and \$2,711	52,104	43,239
Earned but unbilled receivables	10,345	7,813
Prepaid expenses and other current assets	8,671	7,215
Deferred income taxes	4,278	3,069
Total current assets	144,897	132,825
Property and equipment, less accumulated depreciation of \$63,128 and \$50,988	50,165	46,244
Software products, less accumulated amortization of \$25,914 and \$19,760	24,439	28,644
Goodwill, less accumulated amortization of \$8,647 and \$5,825	73,286	76,085
Other intangible assets, less accumulated amortization of \$6,530 and \$4,666	20,672	18,889
	<u>\$ 313,459</u>	<u>\$ 302,687</u>
<i>Liabilities and Stockholders' Equity</i>		
<i>Current:</i>		
Current portion of long-term debt	\$ 723	\$ 21,875
Accounts payable	2,959	3,218
Accrued compensation and benefits	15,145	11,543
Other accrued expenses	7,070	6,264
Accrued income taxes	4,397	4,422
Deferred revenue	29,737	22,323
Total current liabilities	60,031	69,645
Long-term debt	87,097	87,357
Deferred income taxes	3,333	5,419
<i>Commitments</i>		
<i>Stockholders' equity:</i>		
Preferred stock, par value \$.01 per share; 5,000 shares authorized	—	—
Common stock, par value \$.01 per share; 30,000 shares authorized; 15,137 and 15,093 issued	151	151
Capital in excess of par value	70,125	69,592
Restricted stock incentive plan	(4,857)	(5,735)
Retained earnings	97,752	76,285
Foreign currency translation adjustment	178	—
	<u>163,349</u>	<u>140,293</u>
Treasury stock, at cost, 21 and 2 shares	(351)	(27)
Total stockholders' equity	<u>162,998</u>	<u>140,266</u>
	<u>\$ 313,459</u>	<u>\$ 302,687</u>

Consolidated Statements of Cash Flows

In thousands

	Year Ended December 31,		
	1991	1990	1989
<i>Cash flow from operations:</i>			
Net income	\$ 21,467	\$ 20,480	\$ 17,119
Reconciliation of net income to cash flow from operations:			
Depreciation and amortization	27,480	24,449	15,646
Amortization of restricted stock incentive plan	1,450	846	—
Accretion of imputed interest and other noncash charges	287	1,277	524
Deferred income tax provision	(3,295)	(77)	(1,361)
Cash provided by (used for) working capital, net of effect of acquired businesses:			
Accounts receivable and other current assets	(11,136)	(863)	(3,479)
Accounts payable and accrued expenses	2,749	3,827	4,748
Deferred revenues	6,878	3,544	2,569
Cash flow from operations	45,880	53,483	35,766
<i>Financing activities:</i>			
Proceeds from employee stock plans	241	912	545
Purchase of treasury stock	(604)	(1,456)	—
Redemption of preferred stock	—	—	(3,000)
Dividends on preferred stock	—	—	(32)
Increase in notes payable and long-term debt	—	133,761	—
Repayments of notes payable and long-term debt	(22,034)	(71,149)	(6,501)
Total financing activities	(22,397)	62,068	(8,988)
<i>Long-term investment activities:</i>			
Cash paid for acquired businesses	(8,914)	(64,056)	(3,921)
Cash paid for property and equipment	(15,294)	(14,657)	(11,226)
Proceeds from sale of tangible and intangible assets	779	1,818	—
Cash paid for software and other intangible assets	(2,044)	(2,718)	(2,114)
Total long-term investment activities	(25,473)	(79,613)	(17,261)
Increase (decrease) in cash and equivalents			
before short-term investment activities	(1,990)	35,938	9,517
<i>Short-term investment activities:</i>			
Purchase of short-term investments	(28,597)	—	(10,275)
Maturities of short-term investments	15,226	4,275	16,555
Increase (decrease) in cash and equivalents	(15,361)	40,213	15,797
Beginning cash and equivalents	71,489	31,276	15,479
Ending cash and equivalents	\$ 56,128	\$ 71,489	\$ 31,276
<i>Supplemental disclosure of cash flow information:</i>			
Interest paid	\$ 7,637	\$ 5,537	\$ 887
Income taxes paid	\$ 20,187	\$ 13,118	\$ 9,880
Acquired businesses:			
Property and equipment	\$ 4,683	\$ 16,283	\$ 5,109
Software products	2,781	10,900	2,888
Goodwill and other intangible assets	2,523	44,421	23,546
Common stock issued	—	(2,644)	(641)
Debt assumed or created	(172)	(8,960)	(26,363)
Net current assets acquired (liabilities assumed)	(901)	4,056	(618)
Cash paid for acquired businesses, net of cash acquired of			
\$1,244 in 1990 and \$1,716 in 1989	\$ 8,914	\$ 64,056	\$ 3,921

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

Consolidated Statement of Stockholders' Equity

In thousands, except per share amounts

	Preferred Stock (Series B)		Common Stock	
	Number of Shares	Par Value	Number of Shares	Par Value
Balances, December 31, 1988	300	\$ 200	13,162	\$ 132
Net income	—	—	—	—
Dividends on Series B preferred stock (\$.11 per share)	—	—	—	—
Preferred stock redemption (January 1989)	(300)	(200)	—	—
Shares issued in connection with acquisition	—	—	271	2
Allocation to ESOP participants	—	—	—	—
Shares issued under option and stock purchase plans, net	—	—	192	2
Income tax benefit arising from employee transactions in common stock options	—	—	—	—
Balances, December 31, 1989	—	—	13,625	136
Net income	—	—	—	—
Shares issued in connection with equity contract note	—	—	247	2
Shares issued under restricted stock incentive plan	—	—	344	3
Restricted stock incentive plan shares repurchased to satisfy income tax withholding	—	—	—	—
Shares issued and adjustments for pooling-of-interests with Phase3 Systems Inc.	—	—	795	8
Allocation to ESOP participants	—	—	—	—
Shares issued under option and stock purchase plans, net	—	—	82	2
Compensation expense related to restricted stock incentive plan	—	—	—	—
Income tax benefit arising from employee transactions in common stock options	—	—	—	—
Balances, December 31, 1990	—	—	15,093	151
Net income	—	—	—	—
Shares issued under restricted stock incentive plan	—	—	33	—
Restricted stock incentive plan shares repurchased to satisfy income tax withholding	—	—	—	—
Purchase of common stock	—	—	—	—
Shares issued under option and stock purchase plans, net	—	—	11	—
Compensation expense related to restricted stock incentive plans	—	—	—	—
Foreign currency translation adjustment	—	—	—	—
Balances, December 31, 1991	—	\$ —	15,137	\$ 151

Equity Contract Note	Capital in Excess of Par Value	ESOP Loan Guarantee	Restricted Stock Incentive Plan	Retained Earnings	Foreign Currency Translation Adjustment	Treasury Stock		Total
						Number of Shares	Cost	
\$ 3,000	\$ 59,946	\$ (1,116)	\$ —	\$ 37,320	\$ —	—	\$ —	\$ 99,482
—	—	—	—	17,119	—	—	—	17,119
—	—	—	—	(32)	—	—	—	(32)
—	(2,800)	—	—	—	—	—	—	(3,000)
—	620	—	—	—	—	—	—	622
—	—	608	—	—	—	—	—	608
—	1,061	—	—	—	—	—	—	1,063
—	316	—	—	—	—	—	—	316
3,000	59,143	(508)	—	54,407	—	—	—	116,178
—	—	—	—	20,480	—	—	—	20,480
(3,000)	2,998	—	—	—	—	—	—	—
—	6,581	—	(6,581)	—	—	—	—	3
—	—	—	—	—	—	(76)	(1,456)	(1,456)
—	378	—	—	1,418	—	42	840	2,644
—	—	508	—	—	—	—	—	508
—	448	—	—	(20)	—	32	589	1,019
—	—	—	846	—	—	—	—	846
—	44	—	—	—	—	—	—	44
—	69,592	—	(5,735)	76,285	—	(2)	(27)	140,266
—	—	—	—	21,467	—	—	—	21,467
—	572	—	(572)	—	—	—	—	—
—	—	—	—	—	—	(1)	(16)	(16)
—	—	—	—	—	—	(35)	(588)	(588)
—	(39)	—	—	—	—	17	280	241
—	—	—	1,450	—	—	—	—	1,450
—	—	—	—	—	178	—	—	178
\$ —	\$ 70,125	\$ —	\$ (4,857)	\$ 97,752	\$ 178	(21)	\$ (351)	\$ 162,998

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

PRINCIPLES OF CONSOLIDATION:

SunGard Data Systems Inc. (the Company), through its wholly owned subsidiaries, operates in a single industry segment providing computer services, principally proprietary processing services and software to the financial services industry and computer disaster recovery services. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and accounts have been eliminated.

REVENUE RECOGNITION:

In December 1991, the American Institute of Certified Public Accountants issued Statement of Position 91-1 on Software Revenue Recognition (SOP). The Company has implemented the provisions of the SOP with no material effect on the results of operations reported in the accompanying consolidated financial statements.

Revenues from disaster recovery, software maintenance and remote processing services are recognized as the related service is provided. License fee revenues from proprietary products are generally recognized upon the signing of a contract and delivery of the product. In those instances where the Company provides training, installation and other post-delivery services, a portion of the contract price is deferred and recognized as the services are provided. Revenues from fixed-fee contracts requiring a significant amount of program modification or customization are recognized based on the estimated percentage of completion. Changes in estimated costs during the course of a contract are reflected in the period in which the facts become known. Projected losses, if any, are recognized in their entirety in the period they become known.

CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS:

Cash in excess of daily requirements is invested primarily in institutional money market funds, commercial paper, time deposits and certificates of deposit. Investments purchased with a maturity of three months or less are considered cash equivalents. Investments purchased with a maturity of more than three months are considered short-term investments. All investments are stated at cost, which approximates market.

CONCENTRATION OF CREDIT RISK:

Financial instruments that potentially subject the Company to concentrations of credit risk consist of temporary cash investments and trade receivables. The Company places its temporary cash investments with institutions of high credit quality and, by policy, limits the amount of credit exposure to any one institution and industry. The Company sells a significant portion of its products and services to the U.S. banking industry, and, although the Company could be directly affected by the well-being of the U.S. banking industry in general, the Company does not believe that significant credit risk existed at December 31, 1991.

PROPERTY AND EQUIPMENT:

Property and equipment are recorded at cost, and depreciation is provided on the straight-line method over the estimated useful lives of the related assets (two to eight years for equipment and ten to thirty years for buildings and improvements). Leasehold improvements are amortized ratably over the remaining lease terms or useful lives, if shorter.

FOREIGN CURRENCY TRANSLATION:

As the result of growth and other changes relating to business conducted internationally, effective January 1, 1991, the Company determined that the functional currency of each of its foreign operations is the local currency of the country in which the operation conducts business.

Accordingly, beginning in 1991, all assets and liabilities are translated into U.S. dollars using exchange rates in effect at the balance sheet date. Revenues and expenses are translated using average exchange rates during the period. Gains and losses resulting from foreign currency translation are reported as a separate component of stockholders' equity. Transaction gains and losses are included in the results of operations and are not material.

SOFTWARE DEVELOPMENT AND PRODUCT COSTS:

Product development costs are charged to expense as incurred and consist primarily of routine maintenance of proprietary software products and of design and development costs of new products and significant enhancements incurred prior to the establishment of a product's technological feasibility.

Costs associated with purchased software, software acquired through business acquisitions, and new products and enhancements to existing products that meet technological feasibility and recoverability tests are capitalized and amortized over the esti-

mated useful lives of the related products, generally five to ten years, using the straight-line method or the ratio of current revenues to current and anticipated revenues from such software, whichever provides the greater amortization. Amortization of all software products aggregated \$6,955,000, \$6,738,000 and \$4,975,000 during 1991, 1990 and 1989, respectively.

GOODWILL:

Goodwill represents the excess of cost over the fair value of net assets acquired and is amortized on the straight-line method over periods ranging from ten to forty years.

OTHER INTANGIBLE ASSETS:

Other intangible assets consist primarily of the allocated costs of certain acquired contract rights, which are amortized on the straight-line method over their estimated remaining lives, not exceeding twenty years.

INCOME TAXES:

The provision for income taxes is computed at current tax rates on reported financial statement income for all periods presented. Deferred income tax provisions represent the tax effect of significant timing differences between financial statement income and current taxable earnings.

Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes," was issued in February 1992 and will be effective for fiscal years beginning after 1992. This Standard requires income taxes to be provided based upon a liability approach, under which deferred taxes are recorded at the rates to be in effect when such taxes are due. The Company believes that the effect of adopting this new Standard will not be material.

NET INCOME PER SHARE:

Primary net income per share is computed by dividing net income by the weighted-average number of common and common-equivalent shares outstanding.

Fully diluted net income per share is computed based on the assumption that all of the convertible subordinated debentures were converted into common shares on the date of issue. For purposes of calculating fully diluted net income per share, net income is increased by the after-tax interest savings and the weighted-average number of shares outstanding is increased by

the additional common shares that would have resulted from the assumed conversion of the subordinated debentures. Since no convertible subordinated debentures were outstanding prior to 1990, no dilution resulted in 1989.

2. Acquisitions:

POOLINGS-OF-INTERESTS:

On October 22, 1990, the Company issued 837,000 shares of common stock in a pooling-of-interests with Phase3 Systems Inc. (Phase3), a Massachusetts-based provider of investment support software and processing services to commercial banks, brokerage firms and other financial institutions. The results of operations for the year ended December 31, 1990 include the operations of Phase3 from January 1, 1990. The consolidated financial statements for periods prior to 1990 have not been restated since the impact of such restatement would not be material.

On November 9, 1989, the Company issued 2,909,000 shares of common stock in a pooling-of-interests with Dyatron Corporation (Dyatron), an Alabama-based provider of investment support services and software to the financial services industry as well as for automotive and other applications. The consolidated financial statements and related disclosures have been restated to include the accounts and results of operations of Dyatron for all periods presented.

During the fourth quarters of 1990 and 1989, the Company recognized \$728,000 (\$.05 per share) and \$975,000 (\$.07 per share), respectively, for costs related to the Phase3 and Dyatron mergers. These costs included investment banking, legal and accounting fees that are not deductible for income tax purposes.

PURCHASE TRANSACTIONS:

During 1991, the Company paid a total of \$8,914,000 in connection with three asset acquisitions, one for each of its product groups. Pro forma combined results of operations for the years ended December 31, 1991 and 1990, assuming the acquisitions had occurred on January 1, 1990, have not been presented since the results of operations reported in the accompanying Consolidated Statements of Income would not be materially different.

Notes to Consolidated Financial Statements

On February 14, 1990, the Company completed the acquisition of substantially all of the assets of Trade Services Consultants, Inc., formerly Warrington Financial Systems Inc. (WFS), a Minnesota-based provider of investment support services and software to the financial services industry. The purchase price consisted of a cash payment of \$65,300,000, of which \$50,000,000 was financed with the proceeds of an unsecured short-term bank loan (see Note 4). Goodwill recorded in connection with this acquisition was approximately \$30,383,000. Pro forma combined results of operations for the year ended December 31, 1990, assuming the acquisition had occurred on January 1, 1990, have not been presented since the results of operations reported in the accompanying Consolidated Statements of Income would not be materially different.

Unaudited consolidated revenues on a pro forma basis for the year ended December 31, 1989, as though WFS had been purchased on January 1, 1989, would have been \$239,708,000. Pro forma net income and net income per share have not been presented since these amounts would not be materially different from those reported in the accompanying Consolidated Statements of Income.

The pro forma information is not necessarily indicative either of results of operations that would have occurred had the acquisition been made on January 1, 1989 or of future results of operations of the combined companies.

On June 29, 1989, the Company purchased all of the common stock of Money Management Systems, Inc. (MMS), a Massachusetts-based provider of investment support software and processing services to banks, brokerage firms and other financial institutions, for a cash payment of \$10,982,000. Goodwill recorded in connection with this acquisition was approximately \$7,912,000. The accompanying consolidated financial statements for the year ended December 31, 1989 include the operations of MMS from June 29, 1989.

3. Property and Equipment:

Property and equipment consist of the following at December 31 (in thousands):

	1991	1990
Computer and telecommunications equipment	\$ 68,134	\$ 55,622
Leasehold improvements	17,149	13,089
Office furniture and equipment	13,793	12,838
Buildings and improvements	9,287	8,408
Land	1,343	1,343
Construction in progress	3,587	5,932
	<u>113,293</u>	<u>97,232</u>
Accumulated depreciation and amortization	(63,128)	(50,988)
	<u>\$ 50,165</u>	<u>\$ 46,244</u>

4. Long-Term Debt:

Long-term debt consists of the following at December 31 (in thousands):

	1991	1990
Convertible subordinated debentures, net of unamortized debt issue costs of \$2,252 and \$2,395	\$ 83,998	\$ 83,855
Present value of amount due DSI Holdings, Inc., interest imputed at 9.5%	—	19,700
Present value of amount due the former stockholders of MMS, interest imputed at 10%, \$300 paid in 1991, \$5,130 paid in 1990	—	293
Mortgage notes payable, interest at 70% of prime (5.9% in 1991), due in amounts ranging from \$115 in 1993 to \$135 in 1995	375	568
Other, primarily capital lease obligations for computer equipment and buildings assumed in connection with certain acquisitions, interest from 10% to 19%	3,447	4,816
	<u>87,820</u>	<u>109,232</u>
Less current maturities	(723)	(21,875)
	<u>\$ 87,097</u>	<u>\$ 87,357</u>

On May 24, 1990, the Company completed a public offering of \$86,250,000 principal amount of 8.25% convertible subordinated debentures due 2015 (the Debentures). The Debentures are redeemable through the operation of a sinking fund in the amount of \$4,312,000 each year starting May 1, 2000 and ending May 1, 2015. Other than through the sinking fund, the Debentures are redeemable at the Company's option at any time on or after May 12, 1993 at prices decreasing from 105% of the face amount to 100% starting in May 2000. The Debentures can be converted at any time prior to maturity into shares of the Company's common stock at a price of \$26.00 per share. At December 31, 1991, a total of 3,317,000 common shares were reserved for conversion of the Debentures.

In February 1990, the Company borrowed \$50,000,000 under an unsecured short-term bank loan bearing interest at 9.63% to finance the acquisition of substantially all of the assets of WFS (see Note 2). This note was repaid on May 25, 1990 using a portion of the proceeds from the sale of the Debentures.

In connection with the acquisition of Devon Systems International, Inc. from DSI Holdings, Inc. on December 31, 1987, the Company issued a \$15,500,000 promissory note bearing interest at prime less 1% subject to a minimum of 7.62%. The balance of this note (\$10,750,000) was repaid on January 2, 1990, and the Company's final purchase price obligation of \$20,000,000 was paid in March 1991.

The net book value of equipment, buildings and improvements pledged as collateral under mortgage notes was approximately \$2,198,000 at December 31, 1991.

Annual maturities of long-term debt during the next five years are as follows: 1992-\$723,000; 1993-\$293,000; 1994-\$262,000; 1995-\$282,000; and 1996-\$129,000.

5. Stock Option and Award Plans:

EMPLOYEE STOCK PURCHASE PLAN:

Under the Company's Employee Stock Purchase Plan, a maximum of 300,000 shares of common stock may be issued to substantially all full-time employees. Eligible employees may purchase a limited number of shares of common stock each quarter through payroll deductions at a purchase price equal to 85% of the closing price of the Company's common stock on the last business day of each calendar quarter. During 1991, 1990 and 1989, employees purchased 71,000, 60,000 and 34,000 shares, respectively, at average purchase prices of \$13.95, \$15.01 and \$15.57 per share, respectively. At December 31, 1991, 97,000 common shares were reserved for issuance under this plan.

RESTRICTED STOCK INCENTIVE PLANS:

On April 30, 1991, the stockholders approved the Company's Restricted Stock Award Plan for Outside Directors (the ODP). The ODP provides for awards of up to 100,000 shares of the Company's common stock. Each outside director will automatically receive an initial award of 5,000 shares of the Company's common stock upon election to the Company's Board of Directors and, upon reelection as an outside director every fifth year thereafter, will automatically receive another 5,000 shares. Shares awarded under the ODP are subject to certain transfer and forfeiture restrictions that lapse over a five-year vesting period. During 1991, ODP awards of 29,000 shares were granted at a weighted-average market value of \$17.02 per share.

On May 1, 1990, the stockholders approved the Company's 1990 Restricted Stock Incentive Plan (the RSIP). The RSIP provides for total awards of up to 400,000 shares of the Company's common stock to officers and key management employees. Shares awarded under the RSIP are subject to certain transfer and forfeiture restrictions that lapse over a five-year vesting period. During 1991 and 1990, RSIP awards of 4,000 shares and 344,000 shares, respectively, were granted at weighted-average market values of \$17.75 and \$19.16 per share, respectively.

Unearned compensation expense relating to ODP and RSIP grants is reported as a reduction of stockholders' equity in the accompanying consolidated financial statements. For accounting purposes, compensation expense is recorded ratably over the five-year period during which the shares are subject to transfer and forfeiture restrictions and is based on the market value on the award date less the par value of the shares awarded. Compensation expense related to these plans aggregated \$1,450,000 and \$846,000 for the years ended December 31, 1991 and 1990, respectively.

Notes to Consolidated Financial Statements

INCENTIVE STOCK OPTION PLANS:

Under the Company's 1986 Stock Option Plan, options to purchase up to 750,000 shares of the Company's common stock may be issued to officers and key employees. These options may be either incentive stock options or nonqualified stock options, and the option price must be at least equal to the fair value of the Company's common stock on the date of grant. Options are granted for a ten-year term and become fully exercisable one year from the date of grant.

Under the Company's 1982 Incentive Stock Option Plan, employees may be granted options to purchase up to 1,090,000 shares of the Company's common stock at 100% of the fair value of the stock on the date of grant. Options are granted for a ten-year term and become exercisable in five cumulative annual installments of 20% commencing one year from the date of grant. The Board of Directors may accelerate a participant's rights to purchase shares under the plan.

The table below summarizes transactions under the Company's incentive stock option plans.

NONQUALIFIED STOCK OPTION PLAN:

Under the Company's 1988 Nonqualified Stock Option Plan (the 1988 Plan), options to purchase up to 200,000 shares of the Company's common stock may be issued to officers and key employees of the Company at a price equal to the lower of \$8.00 per share or 50% of the fair value of the Company's common stock on the date of grant. Stock appreciation rights may be granted with respect to options granted or outstanding. Upon exercise of stock appreciation rights, the holder will receive cash, common stock or a combination thereof, as determined by the Compensation Committee of the Board of Directors, equal to the difference between the increase in the market value and the underlying option price. Options and stock appreciation rights granted under the 1988 Plan expire ten years and five days from the date of grant.

Under a compensation arrangement with an executive officer of the Company, the executive has the right to receive options under the 1988 Plan to purchase up to 150,000 shares of common stock of the Company at \$8.00 per share, if certain performance

	Shares	
	Available	Under Option
Balances, December 31, 1988 (\$20 - \$18.00 per share)	230,000	657,000
Canceled (\$13.25 - \$16.25 per share)	15,000	(15,000)
Granted (\$16.88 - \$20.50 per share)	(94,000)	94,000
Exercised (\$20 - \$16.50 per share)	—	(105,000)
Balances, December 31, 1989 (\$70 - \$20.50 per share)	151,000	631,000
Authorized	250,000	—
Outstanding options of Phase3 (\$12.10 per share)	—	11,000
Canceled (\$13.25 - \$22.38 per share)	27,000	(27,000)
Granted (\$10.00 - \$22.38 per share)	(231,000)	231,000
Exercised (\$70 - \$18.00 per share)	—	(67,000)
Balances, December 31, 1990 (\$70 - \$22.38 per share)	197,000	779,000
Canceled (\$14.00 - \$22.38 per share)	281,000	(281,000)
Granted (\$14.00 - \$17.75 per share)	(288,000)	288,000
Exercised (\$4.17 - \$13.25 per share)	—	(11,000)
Balances, December 31, 1991 (\$70 - \$18.00 per share)	190,000	775,000
Options exercisable at December 31, 1991		505,000

goals are met over the four-year period ending December 31, 1992 (if performance goals are exceeded, the executive may receive options for more than 150,000 shares over the four-year period). Based on performance during the years ended December 31, 1991, 1990 and 1989, options to purchase 101,000 shares of the Company's common stock were earned at December 31, 1991. Compensation expense relating to this agreement is charged to income over the period earned and aggregated \$467,000, \$114,000 and \$398,000 for the years ended December 31, 1991, 1990 and 1989, respectively.

6. Savings Plans:

The Company and its subsidiaries maintain profit sharing and savings plans that cover substantially all employees. These plans provide that the Company will contribute a certain percentage of employee compensation or contributions up to a specified level and also permit the Company to make additional contributions at the discretion of the Company's Board of Directors. Company contributions charged to income under these plans aggregated \$1,972,000, \$2,226,000 and \$1,734,000 for the years ended December 31, 1991, 1990 and 1989, respectively.

7. Employment Agreements:

In connection with the merger with Dyatron, the Company entered into new employment agreements with eight executive officers of Dyatron. These agreements provide, among other things, that the Company will pay to the executive officers, provided they are still employed by the Company, an aggregate of \$3,589,000 on September 12, 1993. Payment may be made wholly in cash, wholly in common stock of the Company, or partly in cash and partly in common stock, at the sole discretion of the Company's Board of Directors. Compensation expense recorded in connection with these agreements aggregated \$1,679,000, \$988,000 and \$165,000 for the years ended December 31, 1991, 1990 and 1989, respectively.

8. Income Taxes:

The provisions for income taxes for the years ended December 31, 1991, 1990 and 1989 consist of the following (in thousands):

	1991	1990	1989
Current:			
Federal	\$ 16,285	\$ 13,382	\$ 10,120
State	3,877	2,796	2,382
	<u>20,162</u>	<u>16,178</u>	<u>12,502</u>
Deferred:			
Federal	(2,680)	70	(1,221)
State	(615)	(147)	(140)
	<u>(3,295)</u>	<u>(77)</u>	<u>(1,361)</u>
	<u>\$ 16,867</u>	<u>\$ 16,101</u>	<u>\$ 11,141</u>

The principal sources of the deferred income tax provisions and their respective tax effects for the years ended December 31, 1991, 1990 and 1989 follow (in thousands):

	1991	1990	1989
Cash method of accounting for income tax purposes	\$ —	\$ (304)	\$ (175)
Software development costs	(414)	(798)	110
Depreciation and amortization	(449)	(736)	(359)
Allowance for doubtful accounts	(302)	(120)	(416)
Accrued liabilities not currently deductible	(1,632)	(639)	(376)
Restricted stock incentive plan	(502)	2,523	—
Other, net	4	(3)	(145)
	<u>\$(3,295)</u>	<u>\$ (77)</u>	<u>\$(1,361)</u>

Notes to Consolidated Financial Statements

Differences between income tax expense at the statutory U.S. federal income tax rate and the Company's effective tax rate are as follows (in thousands):

	1991	1990	1989
Tax at federal statutory rate	\$13,034	\$12,438	\$ 9,608
State income taxes, net			
of federal benefit	2,153	1,748	1,480
Research and development			
credits	—	—	(641)
Amortization of intangible			
assets	1,089	987	404
Merger costs	—	247	331
Other, net	591	681	(41)
	<u>\$16,867</u>	<u>\$16,101</u>	<u>\$ 11,141</u>
Effective income tax rate	<u>44.0%</u>	<u>44.0%</u>	<u>39.4%</u>

9. Royalty Income:

In 1986, the Company sold to Electronic Data Systems Corporation (EDS) its CARS System software product designed to run on IBM Systems/36 hardware (CARS/36). Under the terms of the agreement, EDS made an initial payment of \$2,000,000 and agreed to pay additional royalties of \$10,000 per system installation licensed by EDS, up to a maximum of \$15,000,000. The accompanying Consolidated Statements of Income include \$1,911,000, \$1,458,000 and \$780,000 as revenues derived from EDS for the years ended December 31, 1991, 1990 and 1989, respectively. Cumulative royalties recognized under this agreement were \$6,849,000 at December 31, 1991.

10. International Sales:

The Company's domestic operations recorded international software license, maintenance and professional services revenues of approximately \$29,300,000, \$26,201,000 and \$22,911,000 for the years ended December 31, 1991, 1990 and 1989, respectively.

11. Commitments:

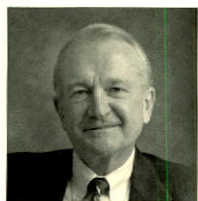
The Company leases a substantial portion of its computer equipment and facilities under operating leases. Future minimum rentals under operating leases with initial or remaining noncancelable lease terms in excess of one year as of December 31, 1991 follow (in thousands):

1992	\$30,123
1993	20,062
1994	14,106
1995	10,110
1996	6,835
Thereafter	8,488
	<u>\$89,724</u>

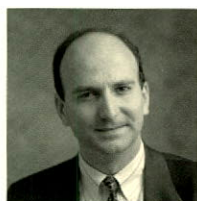
Rent expense aggregated \$37,923,000, \$33,527,000 and \$28,092,000 for the years ended December 31, 1991, 1990 and 1989, respectively.

Equipment and software maintenance expense aggregated \$9,953,000, \$9,838,000 and \$6,557,000 for the years ended December 31, 1991, 1990 and 1989, respectively.

Executive Officers



KENNETH R. ADAMS



CRISTOBAL I. CONDE



PHILIP L. DOWD



DAVID D. GATHMAN



LAWRENCE A. GROSS



MICHAEL F.
MULHOLLAND



MICHAEL K.
MURATORE



DONNA J. PEDRICK



MICHAEL J. RUANE



RICHARD C. TARBOX



DAVID A. WISMER

JAMES L. MANN
Chairman, President, Chief Executive Officer
SunGard Data Systems Inc.

KENNETH R. ADAMS
Chief Executive Officer
SunGard Recovery Services Group

CRISTOBAL I. CONDE
Chief Executive Officer
SunGard Derivative Instrument
Systems Group

PHILIP L. DOWD
Chief Executive Officer
SunGard Trust and Shareholder
Systems Group

MICHAEL K. MURATORE
Chief Executive Officer
SunGard Computer Services Group

DAVID A. WISMER
Chief Executive Officer
SunGard Financial Systems Group

DAVID D. GATHMAN
Vice President-Finance,
Chief Financial Officer
SunGard Data Systems Inc.

LAWRENCE A. GROSS
Vice President and General Counsel,
Secretary
SunGard Data Systems Inc.

MICHAEL F. MULHOLLAND
Vice President-Sales
SunGard Data Systems Inc.

DONNA J. PEDRICK
Vice President-Human Resources
SunGard Data Systems Inc.

MICHAEL J. RUANE
Vice President-Controller
SunGard Data Systems Inc.

RICHARD C. TARBOX
Vice President-Corporate Development
SunGard Data Systems Inc.

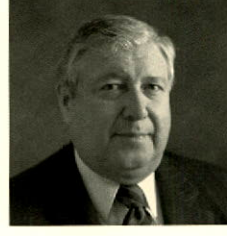
Directors



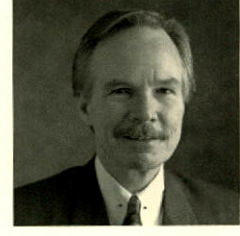
GREGORY S. BENTLEY
Vice President
Bentley Systems, Inc.
(software engineering company)



MICHAEL C. BROOKS
General Partner
J.H. Whitney & Co.
(venture capital firm)



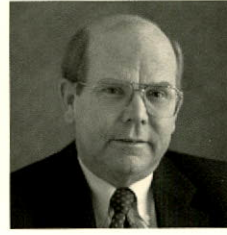
ALBERT A. EISENSTAT
Executive Vice President
Apple Computer, Inc.
(computer company)



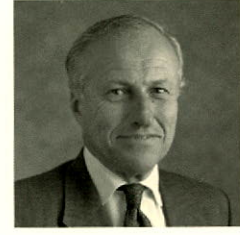
JAMES L. MANN
Chairman, President,
Chief Executive Officer
SunGard Data Systems Inc.



MICHAEL ROTH
Of Counsel
Rosenman & Colin
(law firm)



MALCOLM I. RUDDOCK
Treasurer
Sun Company, Inc.
(energy resources company)



LAWRENCE J. SCHOENBERG
Former Chairman
AGS Computers, Inc.
(computer services company)

Businesses and Principal Locations

Devon Systems International, Inc.
560 Lexington Avenue, 10th Floor
New York, New York 10022
(212) 371-1116

SunGard Asset Management Systems
210 Automation Way
Birmingham, Alabama 35210
(205) 956-7570

SunGard Automotive Systems
210 Automation Way
Birmingham, Alabama 35210
(205) 956-7400

SunGard Computer Services Inc.
401 North Broad Street
Philadelphia, Pennsylvania 19108
(215) 351-1300

SunGard Employee Benefit Systems
210 Automation Way
Birmingham, Alabama 35210
(205) 956-7700

SunGard Financial Systems Inc.
22134 Sherman Way
Canoga Park, California 91303
(818) 884-5515

601 Second Avenue South
Hopkins, Minnesota 55343
(612) 935-3300
1000 Winter Street
Waltham, Massachusetts 02154
(617) 890-2070

SunGard Investment Systems Inc.
11 Salt Creek Lane
Hinsdale, Illinois 60521
(708) 920-3100

SunGard Mailing Services
210 Automation Way
Birmingham, Alabama 35210
(205) 956-7802

SunGard Planning Solutions Inc.
1285 Drummers Lane
Wayne, Pennsylvania 19087
(215) 341-8790

SunGard Recovery Services Inc.
1285 Drummers Lane
Wayne, Pennsylvania 19087
(215) 341-8700

SunGard Shareholder Systems Inc.
951 Mariners Island Boulevard
San Mateo, California 94404
(415) 377-3700

SunGard Trust Systems Inc.
5510 77 Center Drive
Charlotte, North Carolina 28224
(704) 527-6300

Corporate Information

TRANSFER AGENT AND REGISTRAR

Security Trust Company
Shareholder Services Administration
Two North Charles Street
Baltimore, Maryland 21201

INDEPENDENT ACCOUNTANTS

Coopers & Lybrand
2400 Eleven Penn Center
Philadelphia, Pennsylvania 19103

LEGAL COUNSEL

Blank, Rome, Comisky & McCauley
1200 Four Penn Center Plaza
Philadelphia, Pennsylvania 19103

1992 ANNUAL MEETING

The 1992 Annual Meeting of Stockholders of SunGard Data Systems Inc. will be held at:

Hotel Atop the Bellevue
1415 Chancellor Court
Philadelphia, Pennsylvania 19102
May 11, 1992
9:00 a.m.

1991 FORM 10-K

Stockholders may obtain a copy of the Company's Annual Report on Form 10-K for 1991, without charge, by writing to or calling:

Investor Relations
SunGard Data Systems Inc.
1285 Drummers Lane
Wayne, Pennsylvania 19087
(215) 341-8111

SUNGARD®

1285 Drummers Lane
Wayne, PA 19087

(215) 341-8700

