

ACI WORLDWIDE, INC.  
Form 10-Q  
May 05, 2016  
Table of Contents

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2016**

**or**

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

**For the transition period from**

**Commission File Number 0-25346**

**ACI WORLDWIDE, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**3520 Kraft Rd, Suite 300**

**Naples, FL 34105**  
**(Address of principal executive offices,**  
**including zip code)**

**47-0772104**  
**(I.R.S. Employer**  
**Identification No.)**

**(239) 403-4600**  
**(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, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of the 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 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  Smaller reporting company

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

As of May 2, 2016, there were 116,618,769 shares of the registrant's common stock outstanding.

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. <u>Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015</u>	3
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2016 and 2015</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2016 and 2015</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
Item 4. <u>Controls and Procedures</u>	37
<b>PART II OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	38
Item 1A. <u>Risk Factors</u>	38
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
Item 3. <u>Defaults Upon Senior Securities</u>	39
Item 4. <u>Mine Safety Disclosures</u>	39
Item 5. <u>Other Information</u>	39
Item 6. <u>Exhibits</u>	40
<u>Signature</u>	41
<u>Exhibit Index</u>	42

Table of Contents

**ACI WORLDWIDE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(unaudited and in thousands, except share and per share amounts)

	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 94,369	\$ 102,239
Receivables, net of allowances of \$4,335 and \$5,045, respectively	170,004	219,116
Recoverable income taxes	2,808	12,048
Prepaid expenses	27,487	27,461
Other current assets	18,246	21,637
<b>Total current assets</b>	<b>312,914</b>	<b>382,501</b>
<b>Noncurrent assets</b>		
Property and equipment, net	59,974	60,630
Software, net	208,837	237,941
Goodwill	917,470	913,261
Intangible assets, net	226,285	256,925
Deferred income taxes, net	71,889	90,872
Other noncurrent assets	36,973	33,658
<b>TOTAL ASSETS</b>	<b>\$ 1,834,342</b>	<b>\$ 1,975,788</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 38,605	\$ 55,420
Employee compensation	33,615	31,213
Current portion of long-term debt	90,055	89,710
Deferred revenue	123,411	128,559
Income taxes payable	12,666	4,734
Other current liabilities	65,458	75,225
<b>Total current liabilities</b>	<b>363,810</b>	<b>384,861</b>
<b>Noncurrent liabilities</b>		
Deferred revenue	41,395	42,081
Long-term debt	668,859	834,449
Deferred income taxes, net	26,437	28,067
Other noncurrent liabilities	29,669	31,930
<b>Total liabilities</b>	<b>1,130,170</b>	<b>1,321,388</b>

## Commitments and contingencies (Note 14)

**Stockholders equity**

Preferred stock; \$0.01 par value; 5,000,000 shares authorized; no shares issued at March 31, 2016 and December 31, 2015

Common stock; \$0.005 par value; 280,000,000 shares authorized; 140,525,055 shares issued at March 31, 2016 and December 31, 2015

	702	702
Additional paid-in capital	565,940	561,379
Retained earnings	506,335	416,851
Treasury stock, at cost, 23,823,009 and 21,491,285 shares at March 31, 2016 and December 31, 2015, respectively	(303,344)	(252,956)
Accumulated other comprehensive loss	(65,461)	(71,576)

<b>Total stockholders equity</b>	<b>704,172</b>	<b>654,400</b>
----------------------------------	----------------	----------------

<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 1,834,342</b>	<b>\$ 1,975,788</b>
--	---------------------	---------------------

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

Table of Contents

**ACI WORLDWIDE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited and in thousands, except per share amounts)

	<b>For the Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Revenues</b>		
License	\$ 37,423	\$ 39,577
Maintenance	57,331	59,492
Services	19,576	23,497
Hosting	111,736	110,251
<b>Total revenues</b>	<b>226,066</b>	<b>232,817</b>
<b>Operating expenses</b>		
Cost of license (1)	5,439	6,109
Cost of maintenance, services and hosting (1)	113,044	113,013
Research and development	43,518	37,091
Selling and marketing	30,000	28,911
General and administrative	25,878	21,575
Gain on sale of CFS assets	(151,952)	
Depreciation and amortization	23,208	19,693
<b>Total operating expenses</b>	<b>89,135</b>	<b>226,392</b>
<b>Operating income</b>	<b>136,931</b>	<b>6,425</b>
<b>Other income (expense)</b>		
Interest expense	(10,414)	(10,941)
Interest income	150	102
Other	(334)	3,722
<b>Total other income (expense)</b>	<b>(10,598)</b>	<b>(7,117)</b>
<b>Income (loss) before income taxes</b>	<b>126,333</b>	<b>(692)</b>
Income tax expense (benefit)	36,849	(530)
<b>Net income (loss)</b>	<b>\$ 89,484</b>	<b>\$ (162)</b>
<b>Earnings (loss) per common share</b>		
Basic	\$ 0.75	\$ 0.00
Diluted	\$ 0.75	\$ 0.00

Weighted average common shares outstanding

Basic	118,679	115,855
Diluted	119,938	115,855

- (1) The cost of software license fees excludes charges for depreciation but includes amortization of purchased and developed software for resale. The cost of maintenance, services and hosting fees excludes charges for depreciation.

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

Table of Contents

**ACI WORLDWIDE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(unaudited and in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Net income (loss)</b>	\$ 89,484	\$ (162)
<b>Other comprehensive income (loss):</b>		
Unrealized gain on available-for-sale securities		3,493
Foreign currency translation adjustments	6,115	(18,482)
<b>Total other comprehensive income (loss)</b>	6,115	(14,989)
<b>Comprehensive income (loss)</b>	\$ 95,599	\$ (15,151)

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



**Table of Contents**

**ACI WORLDWIDE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited and in thousands)

	<b>For the Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 89,484	\$ (162)
<b>Adjustments to reconcile net income (loss) to net cash flows from operating activities:</b>		
Depreciation	5,488	5,331
Amortization	21,024	18,281
Amortization of deferred debt issuance costs	1,578	1,628
Deferred income taxes	19,596	(4,713)
Stock-based compensation expense	9,492	3,936
Excess tax benefit of stock-based compensation	(90)	(3,395)
Gain on sale of CFS assets	(151,952)	
Other	(398)	855
<b>Changes in operating assets and liabilities, net of impact of acquisitions and divestiture:</b>		
Receivables	34,588	42,422
Accounts payable	(12,880)	(3,630)
Accrued employee compensation	3,036	(1,951)
Current income taxes	17,303	2,198
Deferred revenue	8,542	184
Other current and noncurrent assets and liabilities	(6,378)	(11,817)
<b>Net cash flows from operating activities</b>	<b>38,433</b>	<b>49,167</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(7,138)	(9,138)
Purchases of software and distribution rights	(8,766)	(3,359)
Proceeds from sale of CFS assets	200,000	
Other	(7,000)	(2,000)
<b>Net cash flows from investing activities</b>	<b>177,096</b>	<b>(14,497)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	731	751
Proceeds from exercises of stock options	237	6,918
Excess tax benefit of stock-based compensation	90	3,395
Repurchase of restricted stock and performance shares for tax withholdings	(40)	(4,019)
Repurchases of common stock	(52,449)	
Proceeds from revolving credit facility		29,000
Repayment of revolving credit facility	(143,000)	(51,000)

Edgar Filing: ACI WORLDWIDE, INC. - Form 10-Q

Repayment of term portion of credit agreement	(23,823)	(19,853)
Payments on other debt and capital leases	(6,270)	(2,829)
Net cash flows from financing activities	(224,524)	(37,637)
Effect of exchange rate fluctuations on cash	1,125	(5,875)
Net decrease in cash and cash equivalents	(7,870)	(8,842)
Cash and cash equivalents, beginning of period	102,239	77,301
Cash and cash equivalents, end of period	\$ 94,369	\$ 68,459
Supplemental cash flow information		
Income taxes paid (received), net	\$ (2,645)	\$ 5,811
Interest paid	\$ 14,040	\$ 14,058

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

Table of Contents**ACI WORLDWIDE, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****1. Condensed Consolidated Financial Statements**

The unaudited condensed consolidated financial statements include the accounts of ACI Worldwide, Inc. and its wholly-owned subsidiaries (collectively, the Company). All intercompany balances and transactions have been eliminated. The condensed consolidated financial statements as of March 31, 2016, and for the three months ended March 31, 2016 and 2015, are unaudited and reflect all adjustments of a normal recurring nature, which are, in the opinion of management, necessary for a fair presentation, in all material respects, of the financial position and operating results for the interim periods. The condensed consolidated balance sheet as of December 31, 2015 is derived from the audited financial statements.

The condensed consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2015, filed on February 26, 2016. Results for the three months ended March 31, 2016 are not necessarily indicative of results that may be attained in the future.

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States ( U.S. GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Receivables, net**

Receivables represent amounts billed and amounts earned that are to be billed in the near future. Included in accrued receivables are services and software hosting revenues earned in the current period but billed in the following period as well as license revenues that are determined to be fixed and determinable but billed in future periods.

<b>(in thousands)</b>	<b>March 31, 2016</b>	<b>December 31, 2015</b>
Billed Receivables	\$ 151,050	\$ 192,045
Allowance for doubtful accounts	(4,335)	(5,045)
Billed, net	146,715	187,000
Accrued Receivables	23,289	32,116
Receivables, net	\$ 170,004	\$ 219,116

**Table of Contents****Other Current Assets and Other Current Liabilities**

(in thousands)	March 31, 2016	December 31, 2015
Settlement deposits	\$ 5,086	\$ 5,357
Settlement receivables	4,533	7,961
Other	8,627	8,319
Total other current assets	\$ 18,246	\$ 21,637

(in thousands)	March 31, 2016	December 31, 2015
Settlement payables	\$ 9,072	\$ 11,250
Accrued interest	2,615	7,501
Vendor financed licenses	13,316	15,723
Royalties payable	4,730	4,910
Other	35,725	35,841
Total other current liabilities	\$ 65,458	\$ 75,225

Individuals and businesses settle their obligations to the Company's various Clients, primarily utility and other public sector Clients, using credit or debit cards or via ACH payments. The Company creates a receivable for the amount due from the credit or debit card company and an offsetting payable to the Client. Once confirmation is received that the funds have been received, the Company settles the obligation to the Client. Due to timing, in some instances, the Company may receive the funds into bank accounts controlled by and in the Company's name that are not disbursed to its Clients by the end of the day resulting in a settlement deposit on the Company's books.

**Off Balance Sheet Accounts**

The Company also enters into agreements with certain clients to process payment funds on their behalf. When an automated clearing house or automated teller machine network payment transaction is processed, a transaction is initiated to withdraw funds from the designated source account and deposit them into a settlement account, which is a trust account maintained for the benefit of the Company's clients. A simultaneous transaction is initiated to transfer funds from the settlement account to the intended destination account. These back to back transactions are designed to settle at the same time, usually overnight, such that the Company receives the funds from the source at the same time as it sends the funds to their destination. However, due to the transactions being with various financial institutions there may be timing differences that result in float balances. These funds are maintained in accounts for the benefit of the client which is separate from the Company's corporate assets. As the Company does not take ownership of the funds, the settlement accounts are not included in the Company's balance sheet. The Company is entitled to interest earned on the fund balances. The collection of interest on these settlement accounts is considered in the Company's determination of its fee structure for clients and represents a portion of the payment for services performed by the Company. The amount of settlement funds as of March 31, 2016 and December 31, 2015 were \$204.8 million and \$260.2 million, respectively.



**Table of Contents****Goodwill**

Changes in the carrying amount of goodwill attributable to each reporting unit with goodwill balances during the three months ended March 31, 2016 were as follows:

(in thousands)	Americas	EMEA	Asia/Pacific	Total
Gross Balance prior to December 31, 2015	\$ 524,573	\$ 376,827	\$ 59,293	\$ 960,693
Total impairment prior to December 31, 2015	(47,432)			(47,432)
Balance, December 31, 2015	477,141	376,827	59,293	913,261
Goodwill from acquisitions (1)		767		767
Foreign currency translation adjustments	238	435	2,769	3,442
Balance, March 31, 2016	\$ 477,379	\$ 378,029	\$ 62,062	\$ 917,470

- (1) Goodwill from acquisitions relates to adjustments in the goodwill recorded for the acquisition of PAY.ON AG and its subsidiaries (collectively PAY.ON ) as discussed in Note 2. The purchase price allocation for PAY.ON is preliminary as of March 31, 2016 and accordingly is subject to future changes during the maximum one-year allocation period.

In accordance with ASC 350, *Intangibles – Goodwill and Other*, we assess goodwill for impairment annually during the fourth quarter of our fiscal year using October 1 balances or when there is evidence that events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. We evaluate goodwill at the reporting unit level and had previously identified our reportable segments, Americas, EMEA, and Asia/Pacific, as our reporting units. Recoverability of goodwill is measured using a discounted cash flow model incorporating discount rates commensurate with the risks involved. Use of a discounted cash flow model is common practice in impairment testing in the absence of available transactional market evidence to determine the fair value.

The calculated fair value was substantially in excess of the current carrying value for all reporting units based upon our October 1, 2015 annual impairment test and there have been no indications of impairment in the subsequent periods.

**Revenue***Vendor Specific Objective Evidence ( VSOE )*

ASC 985-605, *Revenue Recognition: Software*, requires the seller of software that includes post contract customer support (maintenance or PCS ) to establish VSOE of fair value of the undelivered element of the contract in order to account separately for the PCS revenue. The Company establishes VSOE of fair value of PCS by reference to stated renewals for all identified market segments. The Company also considers factors such as whether the period of the initial PCS term is relatively long when compared to the term of the software license or whether the PCS renewal is significantly below the Company's normal pricing practices. In determining whether PCS pricing is significantly below the Company's normal pricing practice, the Company considers the population of stated renewal rates that are within a reasonably narrow range of the median within the identified market segment over the trailing 12 month period.

Certain of the Company's software license arrangements include PCS terms that fail to achieve VSOE of fair value due to non-substantive renewal periods, or contain a range of possible non-substantive PCS renewal amounts. For these arrangements, VSOE of fair value of PCS does not exist and revenues for the software license, PCS and services, if applicable, are considered to be one accounting unit and are therefore recognized ratably over the longer of the contractual service term or PCS term once the delivery of both services has commenced. The Company typically classifies revenues associated with these arrangements in accordance with the contractually specified amounts, which approximate fair value assigned to the various elements, including software license, maintenance and services, if applicable.

**Table of Contents**

This allocation methodology has been applied to the following amounts included in revenues in the condensed consolidated statements of operations from arrangements for which VSOE of fair value does not exist for each undelivered element:

(in thousands)	Three Months Ended	
	March 31,	
	2016	2015
License	\$ 1,691	\$ 2,007
Maintenance	997	943
Services	78	103
Total	\$ 2,766	\$ 3,053

**Recently Issued Accounting Standards**

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which states that entities should present the debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The effective date for the revised standard is for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company has adopted ASU 2015-03 as of January 1, 2016 and applied retrospectively. See Note 4, *Debt*, for additional details regarding the application of ASU 2015-03.

In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*, related to a customer's accounting for fees paid in a cloud computing arrangement. The new guidance requires that management evaluate each cloud computing arrangement in order to determine whether it includes a software license that must be accounted for separately from hosted services. ASU 2015-05 applies the same guidance cloud service providers use to make this determination and also eliminates the existing requirement for customers to account for software licenses they acquire by analogizing to the guidance on leases. ASU 2015-05 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015 and provides the option of applying the guidance prospectively to all arrangements entered into or materially modified after the effective date or on a retrospective basis. The Company has adopted ASU 2015-05 as of January 1, 2016 and applied prospectively. The adoption of this standard update did not have a material impact on the Company's financial position, results of operations, or cash flow as of March 31, 2016.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations* (ASU 2015-16). ASU No. 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period after an acquisition within the reporting period they are determined. This is a change from the previous requirement that the adjustments be recorded retrospectively. The ASU also requires disclosure of the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the adjustment to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2015. The Company has adopted ASU 2015-16 as of January 1, 2016. The adoption did not have a material effect on the Company's condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This ASU supersedes the revenue recognition requirements in Accounting Standard Codification 605, *Revenue Recognition*, and most



industry-specific guidance. The standard requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB deferred the effective date for this ASU to fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. The standard permits the use of either the retrospective or cumulative effect transition method. At this time, the Company has not selected a transition method. The Company is currently assessing the impact of the adoption of ASU 2014-09 on its financial position, results of operations, and cash flow.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which relates to the accounting of leasing transactions. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the impact the adoption of ASU 2016-02 will have on its financial position, results of operations, and cash flow.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting*, which relates to the accounting for employee share-based payments. This standard addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax

**Table of Contents**

consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is currently assessing the impact the adoption of ASU 2016-09 will have on its financial position, results of operations, and cash flow.

**2. Acquisitions***PAY.ON*

On November 4, 2015, the Company completed the acquisition of PAY.ON for \$186.4 million in cash and stock. PAY.ON is a leader in eCommerce payments gateway solutions to payment service providers globally. Their advanced Software as a Service ( SaaS ) based solution complements and strengthens the Company's Merchant Retail Omni-Channel Universal Payments offerings. The combined entities provide customers the ability to deliver a seamless omni-channel customer payment experience in store, mobile, and online.

Under the terms of the agreement, the Company acquired 100% of the equity of PAY.ON in a combination of cash and stock. The Company used approximately \$181.0 million from its Revolving Credit Facility. See Note 4, *Debt*, for terms of the Credit Facility.

The purchase price of PAY.ON as of the date of the acquisition was comprised of (in thousands):

	<b>Amount</b>
Cash payments to PAY.ON shareholders	\$ 180,994
Issuance of ACI common stock	5,379
<b>Total purchase price</b>	<b>\$ 186,373</b>

The consideration paid by the Company to complete the acquisition has been allocated preliminarily to the assets acquired and liabilities assumed based upon their estimated fair values as of the date of the acquisition. The allocation of the purchase price is based upon certain external valuations and other analyses that have not been completed as of the date of this filing, including but not limited to property and equipment, accruals, and certain tax matters. Accordingly, the purchase price allocation is considered preliminary and is subject to future adjustments during the maximum one-year measurement period.

The Company incurred approximately \$0.9 million in transaction related expenses during the year ended December 31, 2015, including fees to the investment bank, legal and other professional fees, which are included in general and administrative expenses in the accompanying consolidated financial statements.

Under the terms of the PAY.ON acquisition agreement, the Company issued 476,750 shares of ACI common stock to two key PAY.ON employees ( PAY.ON RSAs ) with a fair value of \$11.3 million on the date of grant. The awards have requisite service periods of two years and vest in increments of 25% every six months from the date of the acquisition. The PAY.ON RSA grants provide for the payment of dividends on the Company's common stock, if any, to the participant during the requisite service period (vesting period) and the participant has voting rights for each share of common stock. The Company recognizes compensation expense for the PAY.ON RSAs on a straight-line basis over the requisite service period.

PAY.ON contributed approximately \$4.2 million in revenue and an operating loss of \$3.3 million for the three months ended March 31, 2016. The consideration paid by the Company to complete the acquisition has been allocated to the assets acquired and liabilities assumed based upon their estimated fair values as of the date of the acquisition.

**Table of Contents**

In connection with the acquisition, the Company recorded the following amounts based upon its purchase price allocation as of March 31, 2016. The purchase price allocation for PAY.ON is considered preliminary and is subject to completion of valuations and other analyses.

<b>(in thousands, except weighted average useful lives)</b>	<b>Weighted- Average Useful Lives</b>	<b>PAY.ON</b>
<b>Current assets:</b>		
Cash and cash equivalents		\$ 1,627
Receivables, net of allowance		2,674
Other current assets		513
<b>Total current assets acquired</b>		<b>4,814</b>
<b>Noncurrent assets:</b>		
Property and equipment		424
Goodwill		140,783
Software	5 years	34,213
Customer relationships	15 years	21,718
Trademarks	5 years	2,300
Other noncurrent assets		7
<b>Total assets acquired</b>		<b>204,259</b>
<b>Current liabilities:</b>		
Accounts payable		1,090
Employee compensation		676
Other current liabilities		1,073
<b>Total current liabilities acquired</b>		<b>2,839</b>
<b>Noncurrent liabilities:</b>		
Deferred income taxes		15,047
<b>Total liabilities acquired</b>		<b>17,886</b>
<b>Net assets acquired</b>		<b>\$ 186,373</b>

The Company made adjustments to the purchase price allocation as certain analysis was completed and additional information became available for receivables, other current assets, goodwill, customer relationships, trademarks, accounts payable, employee compensation, other current liabilities, and deferred income taxes. These adjustments and any resulting adjustments to the condensed consolidated statements of operations were not material to the Company's previously reported operating results or financial position.

Factors contributing to the purchase price that resulted in the goodwill (which is not tax deductible) include the acquisition of management, sales, and technology personnel with the skills to market new and existing products of the Company, enhanced product capabilities, complementary products and customers. Pro forma results for PAY.ON are not presented because they are not material.

### **3. Divestiture**

#### *Community Financial Services*

On March 3, 2016, the Company completed the sale of its Community Financial Services ( CFS ) related assets and liabilities, a part of the Americas segment, to Fiserv, Inc. ( Fiserv ) for \$200.0 million. The sale of CFS, which was not strategic to the Company s long-term strategy, is part of the Company s ongoing efforts to expand as a provider of software products and SaaS-based solutions facilitating real-time electronic and eCommerce payments for large financial institutions, intermediaries, retailers, and billers worldwide. The sale includes employees and customer contracts as well as technology assets and intellectual property.

---

**Table of Contents**

For the three months ended March 31, 2016, the Company recognized a net after-tax gain of \$93.7 million on the sale of assets to Fiserv. This gain is preliminary subject to finalization of post-closing adjustments pursuant to the definitive transaction agreement.

The Company and Fiserv have also entered into a Transition Services Agreement ( TSA ), whereby the Company will continue to perform certain functions on Fiserv's behalf during a migration period not to exceed 18 months. The TSA is meant to reimburse the Company for direct costs incurred in order to provide such functions, which are no longer generating revenue for the Company.

**4. Debt**

As of March 31, 2016, the Company had \$35.0 million, \$423.9 million, and \$300.0 million outstanding under its Revolving Credit Facility, Term Credit Facility, and Senior Notes, respectively, with up to \$190.0 million of unused borrowings under the Revolving Credit Facility portion of the Credit Agreement, as amended, and up to \$25.0 million of unused borrowings under the Letter of Credit agreement. The amount of unused borrowings actually available varies in accordance with the terms of the agreement.

*Credit Agreement*

The Company entered into the Credit Agreement (the Credit Agreement ), as amended, with a syndicate of financial institutions, as lenders, and Wells Fargo Bank, National Association ( Wells Fargo ), as Administrative Agent, providing for revolving loans, swingline loans, letters of credit and a term loan on November 10, 2011. The Credit Agreement consists of a five-year \$250.0 million senior secured revolving credit facility (the Revolving Credit Facility ), which includes a sublimit for the issuance of standby letters of credit and a sublimit for swingline loans, and \$650.0 million total under the five-year senior secured term loan facility (the Term Credit Facility and, together with the Revolving Credit Facility, the Credit Facility ). The Credit Agreement also allows the Company to request optional incremental term loans and increases in the revolving commitment.

Borrowings under the Credit Facility bear interest at a rate per annum equal to, at the Company's option, either (a) a base rate determined by reference to the highest of (1) the rate of interest per annum publicly announced by the Administrative Agent as its Prime Rate, (2) the federal funds effective rate plus 1/2 of 1% and (3) a LIBOR based rate determined by reference to the costs of funds for U.S. dollar deposits for a one-month interest period adjusted for certain additional costs plus 1% or (b) a LIBOR based rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs, in each case plus an applicable margin. The applicable margin for borrowings under the Revolving Credit Facility is, based on the calculation of the applicable consolidated total leverage ratio, between 0.50% to 1.50% with respect to base rate borrowings and between 1.50% and 2.50% with respect to LIBOR based borrowings. Interest is due and payable monthly. The interest rate in effect at March 31, 2016 for the Credit Facility was 2.69%.

In addition to paying interest on the outstanding principal under the Credit Facility, the Company is required to pay a commitment fee in respect of the unutilized commitments under the Revolving Credit Facility, payable quarterly in arrears. The Company is also required to pay letter of credit fees on the maximum amount available to be drawn under all outstanding letters of credit in an amount equal to the applicable margin on LIBOR based borrowings under the Revolving Credit Facility on a per annum basis, payable quarterly in arrears, as well as customary fronting fees for the issuance of letters of credit fees and agency fees.

The Company is permitted to voluntarily reduce the unutilized portion of the commitment amount and repay outstanding loans under the Credit Facility at any time without premium or penalty, other than customary breakage

costs with respect to LIBOR based loans.

*Letter of Credit*

On February 29, 2016, the Company entered into a standby letter of credit (the Letter of Credit ), under the terms of the Credit Agreement, for \$25.0 million. The Letter of Credit expires on June 15, 2016, with automatic renewal for a six month period thereafter. However, at any time after June 15, 2016, the Company may request to close the Letter of Credit. The Letter of Credit reduces the maximum available borrowings under our Revolving Credit Facility to \$225.0 million. Upon expiration of the Letter of Credit, maximum borrowings will return to \$250.0 million.

*Senior Notes*

On August 20, 2013, the Company completed a \$300.0 million offering of Senior Notes at an issue price of 100% of the principal amount in a private placement for resale to qualified institutional buyers. The Senior Notes bear an interest rate of 6.375% per annum, payable semi-annually in arrears on August 15 and February 15 of each year, commencing on February 15, 2014. Interest began accruing on August 20, 2013. The Senior Notes will mature on August 15, 2020.

**Table of Contents**

Maturities on long-term debt outstanding at March 31, 2016 are as follows:

<b>Fiscal year ending</b>	
<b>December 31,</b>	
<b>(in thousands)</b>	
2016	\$ 71,470
2017	95,293
2018	304,997
2019	
2020	300,000
<b>Total</b>	<b>\$ 771,760</b>

The Credit Agreement and Senior Notes also contain certain customary mandatory prepayment provisions. If certain events, as specified in the Credit Agreement or Senior Notes agreement, shall occur, the Company may be required to repay all or a portion of the amounts outstanding under the Credit Facility or Senior Notes.

The Credit Facility will mature on August 20, 2018 and the Senior Notes will mature on August 15, 2020. The Revolving Credit Facility and Senior Notes do not amortize and the Term Credit Facility does amortize, with principal payable in consecutive quarterly installments.

The Company's obligations and the obligations of the guarantors under the Guaranty and cash management arrangements entered into with lenders under the Credit Facility (or affiliates thereof) are secured by first-priority security interests in substantially all assets of the Company and any guarantor, including 100% of the capital stock of ACI Corporation and each domestic subsidiary of the Company, each domestic subsidiary of any guarantor and 65% of the voting capital stock of each foreign subsidiary of the Company that is directly owned by the Company or a guarantor, and in each case, is subject to certain exclusions set forth in the credit documentation governing the Credit Facility.

The Credit Agreement and Senior Notes contain certain customary affirmative covenants and negative covenants that limit or restrict, subject to certain exceptions, the incurrence of liens, indebtedness of subsidiaries, mergers, advances, investments, acquisitions, transactions with affiliates, change in nature of business and the sale of the assets. The Company is also required to maintain a consolidated leverage ratio at or below a specified amount and a consolidated fixed charge coverage ratio at or above a specified amount. If an event of default, as specified in the Credit Agreement and Senior Notes agreement, shall occur and be continuing, the Company may be required to repay all amounts outstanding under the Credit Facility and Senior Notes. As of March 31, 2016, and at all times during the period, the Company was in compliance with its financial debt covenants.

<b>(in thousands)</b>	<b>As of March 31,</b>	<b>As of December 31,</b>
	<b>2016</b>	<b>2015</b>
Term credit facility	\$ 436,760	\$ 460,583
Revolving credit facility	35,000	178,000
6.375% Senior Notes, due August 2020	300,000	300,000



Debt issuance costs	(12,846)	(14,424)
<b>Total debt</b>	<b>758,914</b>	<b>924,159</b>
Less current portion of term credit facility	95,293	95,293
Less current portion of debt issuance costs	(5,238)	(5,583)
 Total long-term debt	 \$ 668,859	 \$ 834,449

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which states that entities should present the debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. The Company has adopted ASU 2015-03 as of January 1, 2016 and applied retrospectively. The adoption of this standard resulted in the reclassification in the condensed consolidated balance sheet as of December 31, 2015 of \$5.6 million from other current assets to current portion of long-term debt and \$8.8 million from other noncurrent assets to long-term debt.

## 5. Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements and Disclosures* ( ASC 820 ), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

**Table of Contents**

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

*Debt*

The fair value of our Credit Agreement approximates the carrying value due to the floating interest rate (Level 2 of the fair value hierarchy). The Company measures the fair value of its Senior Notes based on Level 2 inputs, which include quoted market prices and interest rate spreads of similar securities. The fair value of the Company's Senior Notes was \$308.3 million and \$310.5 million at March 31, 2016 and December 31, 2015, respectively.

*Cash and Cash Equivalents*

The fair values of cash and cash equivalents approximate the carrying values due to the short period of time to maturity (Level 2 of the fair value hierarchy).

The Company assesses its classifications within the fair value hierarchy at each reporting period. There were no transfers between any levels of the fair value hierarchy during the periods ended March 31, 2016 and December 31, 2015.

**6. Stock-Based Compensation Plans***Employee Stock Purchase Plan*

Under the Company's 1999 Employee Stock Purchase Plan, as amended (the "ESPP"), a total of 4,500,000 shares of the Company's common stock have been reserved for issuance to eligible employees. Participating employees are permitted to designate up to the lesser of \$25,000 or 10% of their annual base compensation for the purchase of common stock under the ESPP. Purchases under the ESPP are made one calendar month after the end of each fiscal quarter. The price for shares of common stock purchased under the ESPP is 85% of the stock's fair market value on the last business day of the three-month participation period. Shares issued under the ESPP during the three months ended March 31, 2016 and 2015 totaled 50,876 and 46,651, respectively.

*Stock-Based Payments*

A summary of stock options issued pursuant to the Company's stock incentive plans is as follows:

Number of Shares	Weighted- Average Exercise	Weighted- Average Remaining	Aggregate Intrinsic Value of In-the-Money
------------------------	----------------------------------	-----------------------------------	---

		<b>Price</b>	<b>Contractual Term (Years)</b>	<b>Options</b>
Outstanding as of December 31, 2015	5,799,076	\$ 14.37		
Granted	2,284,500	17.92		
Exercised	(15,885)	11.14		
Forfeited	(86,680)	19.10		
Outstanding as of March 31, 2016	7,981,011	\$ 15.34	7.07	\$ 43,551,458
Exercisable as of March 31, 2016	4,254,017	\$ 12.59	5.03	\$ 34,890,634

As of March 31, 2016, the Company expects that 93.1% of the options will vest over the vesting period.

The weighted-average grant date fair value of stock options granted during the three months ended March 31, 2016 and 2015 was \$5.54 and \$6.49, respectively. The Company issued treasury shares for the exercise of stock options during the three months ended March 31, 2016 and 2015. The total intrinsic value of stock options exercised during the three months ended March 31, 2016 and 2015 was \$0.2 million and \$6.4 million, respectively.

**Table of Contents**

The fair value of options that do not vest based on the achievement of certain market conditions granted during the three months ended March 31, 2016 and 2015 were estimated on the date of grant using the Black-Scholes option-pricing model, a pricing model acceptable under U.S. GAAP, with the following weighted-average assumptions:

	<b>Three Months Ended March 31, 2016</b>	<b>Three Months Ended March 31, 2015</b>
Expected life (years)	5.93	5.93
Interest rate	1.2%	1.4%
Volatility	29.7%	32.1%
Dividend yield		

Expected volatilities are based on the Company's historical common stock volatility derived from historical stock price data for historical periods commensurate with the options' expected life. The expected life is the average number of years that the Company estimated that the options will be outstanding, based primarily on historical employee option exercise behavior. The risk-free interest rate is based on the implied yield currently available on United States Treasury zero coupon issues with a term equal to the expected term at the date of grant of the options. The expected dividend yield is zero as the Company has historically paid no dividends and does not anticipate dividends to be paid in the future.

During the three months ended March 31, 2016, the Company granted supplemental stock options with three tranches at a grant date fair value of \$7.46, \$7.06 and \$6.50, respectively, per share. These options vest, if at all, based upon (i) tranche one - any time after the third anniversary date if the stock has traded at 133% of the exercise price for at least 20 consecutive trading days, (ii) tranche two - any time after the fourth anniversary date if the stock has traded at 167% of the exercise price for at least 20 consecutive trading days, and (iii) tranche three - any time after the fifth anniversary date if the stock has traded at 200% of the exercise price for at least 20 consecutive trading days. The employees must also remain employed with the Company as of the anniversary date in order for the options to vest. The exercise price of the supplemental stock options is the closing market price on the date the awards were granted. In order to determine the grant date fair value of the supplemental stock options, a Monte Carlo simulation model was used. With respect to options granted that vest based on the achievement of certain market conditions, the grant date fair value of such options was estimated using the following weighted-average assumptions:

	<b>Three Months Ended March 31, 2016</b>	<b>Three Months Ended March 31, 2015</b>
Expected life (years)	7.50	7.50
Interest rate	1.6%	1.7%
Volatility	41.6%	41.9%
Dividend yield		

**Table of Contents**

*Stock Incentive Plan Online Resources Corporation ( ORCC ) Stock Incentive Plan, as amended and restated*

A summary of transaction stock options issued pursuant to the Company's stock incentive plans is as follows:

	<b>Number of Shares</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value of In-the-Money Options</b>
Outstanding as of December 31, 2015	21,036	\$ 29.76		
Exercised	(4,299)	13.92		
Cancelled	(726)	13.92		
Outstanding as of March 31, 2016	16,011	\$ 34.73	1.90	\$
Exercisable as of March 31, 2016	16,011	\$ 34.73	1.90	\$

A summary of nonvested long-term incentive program performance share awards ( LTIP performance shares ) outstanding as of March 31, 2016 and changes during the period are as follows:

<b>Nonvested LTIP Performance Shares</b>	<b>Number of Shares at Expected Attainment</b>	<b>Weighted- Average Grant Date Fair Value</b>
Nonvested as of December 31, 2015	889,295	\$ 19.13
Granted	1,059,428	17.92
Forfeited	(44,696)	18.93
Nonvested as of March 31, 2016	1,904,027	\$ 18.44

A summary of nonvested restricted share awards ( RSAs ) as of March 31, 2016 and changes during the period are as follows:

<b>Nonvested Restricted Share Awards</b>	<b>Number of Restricted Share Awards</b>	<b>Weighted-Average Grant Date Fair Value</b>
Nonvested as of December 31, 2015	149,262	\$ 22.62
Vested	(5,638)	20.55
Forfeited	(756)	20.51
Nonvested as of March 31, 2016	142,868	\$ 22.71

During the three months ended March 31, 2016, 5,638 shares of the RSAs vested. The Company withheld 2,039 of those shares to pay the employees' portion of the minimum payroll withholding taxes.

A summary of nonvested Performance-Based Restricted Share Awards ( PBRsAs ) as of March 31, 2016 and changes during the period are as follows:

<b>Nonvested Performance-Based Restricted Share Awards</b>	<b>Number of Weighted-Average Grant Performance-Based Restricted Share Awards</b>	<b>Date Fair Value</b>
Nonvested as of December 31, 2015	938,863	\$ 23.42
Forfeited	(21,790)	22.64
Change in attainment for 2015 grants	(17,115)	24.41
Nonvested as of March 31, 2016	899,958	\$ 23.42

**Table of Contents**

During the three months ended March 31, 2016, the Company changed the expected attainment on the PBRsAs vesting in June 2016 from 100% to 91% based upon actual results of the related performance targets.

*Retention Restricted Share Awards*

During the three months ended March 31, 2016, pursuant to the Company's 2005 Incentive Plan, the Company granted Retention Restricted Share Awards ( Retention RSAs ). The Retention RSA awards granted to named executive officers have requisite service period (vesting period) of 1.3 years and vest 50% on July 1, 2016 and 50% on July 1, 2017. Retention RSA awards granted to employees other than named executive officers have a vesting period of 0.8 years and vest 50% on July 1, 2016 and 50% on January 1, 2017. Under each agreement, stock is issued without direct cost to the employee. The Company estimates the fair value of the Retention RSAs based upon the market price of the Company's stock at the date of grant. The Retention RSA grants provide for the payment of dividends on the Company's common stock, if any, to the participant during the requisite service period and the participant has voting rights for each share of common stock. The Company recognizes compensation expense for Retention RSAs on a straight-line basis over the requisite service period.

A summary of nonvested Retention RSAs as of March 31, 2016 and changes during the period are as follows:

<b>Nonvested Retention Restricted Share Awards</b>	<b>Number of Retention Restricted Share Awards</b>	<b>Weighted-Average Grant Date Fair Value</b>
Nonvested as of December 31, 2015		\$
Granted	473,069	17.89
Forfeited	(8,900)	17.89
Nonvested as of March 31, 2016	464,169	\$ 17.89

There were 476,750 nonvested PAY.ON RSAs as of March 31, 2016 and December 31, 2015, with a grant date fair value of \$23.60.

As of March 31, 2016, there were unrecognized compensation expenses of \$19.0 million related to nonvested stock options, \$1.1 million related to the nonvested RSAs, \$26.3 million related to the LTIP performance shares, \$10.5 million related to nonvested PBRsAs, \$6.5 million related to nonvested Retention RSAs and which the Company expects to recognize over weighted-average periods of 2.5 years, 1.3 years, 2.7 years, 1.3 years, and 0.9 years, respectively.

The Company recorded stock-based compensation expenses for the three months ended March 31, 2016 and 2015 related to stock options, LTIP performance shares, RSAs, PBRsAs, Retention RSAs, and the ESPP of \$9.5 million and \$3.9 million, respectively, with corresponding tax benefits of \$3.6 million and \$1.5 million, respectively. Tax benefits in excess of the option's grant date fair value are classified as financing cash flows. Estimated forfeiture rates, stratified by employee classification, have been included as part of the Company's calculations of compensation costs. The Company recognizes compensation costs for stock option awards that vest with the passage of time with only service conditions on a straight-line basis over the requisite service period. The Company recognizes compensation costs for stock option awards that vest with service and market-based conditions on a straight-line basis over the longer of the requisite service period or the estimated period to meet the defined market-based condition.

Cash received from option exercises for the three months ended March 31, 2016 and 2015 was \$0.2 million and \$6.9 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$0.1 million and \$2.4 million for the three months ended March 31, 2016 and 2015, respectively.

## **7. Software and Other Intangible Assets**

At March 31, 2016, software net book value totaling \$208.8 million, net of \$162.5 million of accumulated amortization, includes the net book value of software marketed for external sale of \$56.1 million. The remaining software net book value of \$152.7 million is comprised of various software that has been acquired or developed for internal use.

At December 31, 2015, software net book value totaled \$237.9 million, net of \$158.9 million of accumulated amortization. Included in this amount is software marketed for external sale of \$70.1 million. The remaining software net book value of \$167.8 million is comprised of various software that has been acquired or developed for internal use.



**Table of Contents**

Quarterly amortization of software marketed for external sale is computed using the greater of the ratio of current revenues to total estimated revenues expected to be derived from the software or the straight-line method over an estimated useful life of three to ten years. Software for resale amortization expense recorded in the three months ended March 31, 2016 and 2015 totaled \$3.3 million and \$3.9 million, respectively. These software amortization expense amounts are reflected in cost of software license fees in the condensed consolidated statements of operations.

Quarterly amortization of software for internal use is computed using the straight-line method over an estimated useful life of three to ten years. Software for internal use includes software acquired through acquisitions that is used to provide certain of our hosted offerings. Amortization of software for internal use of \$11.9 million and \$8.5 million for the three months ended March 31, 2016 and 2015, respectively, is included in depreciation and amortization in the condensed consolidated statements of operations.

The carrying amount and accumulated amortization of the Company's other intangible assets that were subject to amortization at each balance sheet date are as follows:

(in thousands)	March 31, 2016			December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance
Customer relationships	\$ 304,913	\$ (85,170)	\$ 219,743	\$ 336,075	\$ (86,585)	\$ 249,490
Trademarks and tradenames	16,664	(10,122)	6,542	18,040	(10,605)	7,435
Purchased Contracts	10,646	(10,646)		10,690	(10,690)	
	\$ 332,223	\$ (105,938)	\$ 226,285	\$ 364,805	\$ (107,880)	\$ 256,925

Other intangible assets amortization expense for the three months ended March 31, 2016 and 2015 totaled \$5.8 million.

Based on capitalized software and other intangible assets at March 31, 2016, estimated amortization expense for future fiscal years is as follows:

Fiscal Year Ending December 31, (in thousands)	Software Amortization	Other Intangible Assets Amortization
Remainder of 2016	\$ 42,207	\$ 15,662
2017	49,622	19,629
2018	37,313	19,122
2019	29,388	18,543
2020	24,847	17,632
2021	16,607	17,142
Thereafter	8,853	118,555

Total	\$ 208,837	\$ 226,285
-------	------------	------------

## 8. Corporate Restructuring and Other Organizational Changes

### *2016 Activities*

Approximately \$0.2 million of termination costs were paid during the first quarter of 2016, related to the termination expenses recognized during 2015. The unpaid severance liability as of March 31, 2016 totaled \$0.6 million, including balances from severance events during the 12-months ended December 31, 2015. The Company expects the total \$0.6 million of the severance liability to be paid over the next 12 months.

### *2015 Activities*

During the three months ended March 31, 2015, the Company reduced its headcount as a part of its integration of its recent acquisitions. In connection with these actions, approximately \$1.3 million of termination costs were recognized in general and administrative expense in the accompanying condensed consolidated statements of operations during the three months ended March 31, 2015. Approximately \$1.1 million of the \$1.3 million in termination costs were paid during the first quarter of 2015.

**Table of Contents**

The components of corporate restructuring and other reorganization activities from the recent acquisitions are included in the following table:

(in thousands)	Severance	Facility Closures	Total
Balance, December 31, 2015	\$ 777	\$ 268	\$ 1,045
Amounts paid during the period	(218)	(46)	(264)
Foreign currency translation	1		1
Balance, March 31, 2016	\$ 560	\$ 222	\$ 782

The \$0.6 million for unpaid severance is included in employee compensation and the \$0.2 million for unpaid facilities closures is included in other current liabilities in the accompanying condensed consolidated balance sheets at March 31, 2016.

**9. Common Stock and Treasury Stock**

As of December 31, 2011, the Company's Board of Directors had approved a stock repurchase program authorizing the Company, from time to time as market and business conditions warrant, to acquire up to \$210 million of its common stock. In February 2012, the Company's Board of Directors approved an increase of \$52.1 million to their current stock repurchase authorization, bringing the total authorization to \$262.1 million.

On September 13, 2012, the Company's Board of Directors approved the repurchase of up to 7,500,000 shares of the Company's common stock, or up to \$113.0 million in place of the remaining repurchase amounts previously authorized. In July 2013, the Company's Board of Directors approved an additional \$100 million for the stock repurchase program. In February 2014, the Company's Board of Directors again approved an additional \$100 million for the stock repurchase program.

The Company repurchased 2,842,116 shares for \$56.4 million under the program during the three months ended March 31, 2016. Under the program to date, the Company has repurchased 39,950,633 shares for approximately \$452.2 million. The maximum remaining authorized for purchase under the stock repurchase program was approximately \$81.9 million as of March 31, 2016.

**10. Earnings (Loss) Per Share**

Basic earnings (loss) per share is computed on the basis of weighted average outstanding common shares. Diluted earnings (loss) per share is computed on the basis of basic weighted average outstanding common shares adjusted for the dilutive effect of stock options and other outstanding dilutive securities.

The following table reconciles the average share amounts used to compute both basic and diluted earnings (loss) per share (in thousands):

<b>Three Months Ended March 31,</b>	
<b>2016</b>	<b>2015</b>

Weighted average shares outstanding:		
Basic weighted average shares outstanding	118,679	115,855
Add: Dilutive effect of stock options	1,259	
Diluted weighted average shares outstanding	119,938	115,855

The diluted earnings (loss) per share computation excludes 5.3 million and 8.5 million options to purchase shares, restricted share awards, and contingently issuable shares during the three months ended March 31, 2016 and 2015, respectively, as their effect would be anti-dilutive.

Common stock outstanding as of March 31, 2016 and December 31, 2015 was 116,702,046 and 119,033,770, respectively.

**Table of Contents****11. Other**

Other is comprised of foreign currency transaction gains (losses) of (\$0.3) million and \$3.7 million for the three months ended March 31, 2016 and 2015, respectively.

**12. Segment Information**

The Company's chief operating decision maker, together with other senior management personnel, currently focus their review of consolidated financial information and the allocation of resources based on reporting of operating results, including revenues and operating income, for the geographic regions of the Americas, EMEA and Asia/Pacific and the Corporate line item. The Company's products are sold and supported through distribution networks covering these three geographic regions, with each distribution network having its own sales force. The Company supplements its distribution networks with independent reseller and/or distributor arrangements. All administrative costs that are not directly attributable or reasonably allocable to a geographic segment are tracked in the Corporate line item. As such, the Company has concluded that its three geographic regions are its reportable segments.

The Company allocates segment support expenses such as global product development, business operations, and product management based upon percentage of revenue per segment. Depreciation and amortization costs are allocated as a percentage of the headcount by segment. The Corporate line item consists of the corporate overhead costs that are not allocated to reportable segments. Corporate overhead costs relate to human resources, finance, legal, accounting, merger and acquisition activity and amortization of acquisition-related intangibles and other costs that are not considered when management evaluates segment performance.

The following is selected segment financial data for the periods indicated (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Revenues:</b>		
Americas - United States	\$ 133,365	\$ 145,784
Americas - Other	22,852	17,966
EMEA	49,637	49,384
Asia/Pacific	20,212	19,683
	\$ 226,066	\$ 232,817
<b>Income (loss) before income taxes:</b>		
Americas	\$ 149,997	\$ 16,109
EMEA	29,427	20,701
Asia/Pacific	10,566	10,257
Corporate	(63,657)	(47,759)
	\$ 126,333	\$ (692)

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Total assets:</b>		
Americas - United States	\$ 1,061,058	\$ 1,182,309
Americas - Other	31,790	33,492
EMEA	622,932	643,275
Asia/Pacific	118,562	116,712
	<b>\$ 1,834,342</b>	<b>\$ 1,975,788</b>

No single customer accounted for more than 10% of the Company's consolidated revenues during the three months ended March 31, 2016 and 2015. No other country outside the United States accounted for more than 10% of the Company's consolidated revenues during the three months ended March 31, 2016 and 2015.

---

**Table of Contents****13. Income Taxes**

The effective tax rate for the three months ended March 31, 2016 was 29%. The earnings of the Company's foreign entities for the three months ended March 31, 2016 were \$6.9 million. The tax rates in the foreign jurisdictions in which the Company operates are less than the domestic tax rate; therefore, losses in foreign jurisdictions will increase the Company's effective tax rate, while earnings in the foreign jurisdictions will reduce the Company's effective tax rate. The effective tax rate for the three months ended March 31, 2016 was reduced by foreign profits taxed at lower rates. The effective tax rate was also reduced by a release of \$10.1 million valuation allowance previously established against foreign tax credits that are now expected to be fully utilized as a result of the sale of the Community Financial Services assets and liabilities.

The effective tax rate for the three months ended March 31, 2015 was a benefit of 77%. The earnings of the Company's foreign entities for the three months ended March 31, 2015 were \$7.7 million. The tax rates in the foreign jurisdictions in which the Company operates are less than the domestic tax rate. The effective tax rate for the three months ended March 31, 2015 was negatively impacted by losses in certain foreign jurisdictions taxed at lower rates, partially offset by profits in other foreign jurisdictions taxed at lower rates and domestic losses taxed at higher rates.

The Company's effective tax rate could fluctuate significantly on a quarterly basis and could be negatively affected to the extent earnings are lower in the countries in which it operates that have a lower statutory rate or higher in the countries in which it operates that have a higher statutory rate or to the extent it has losses sustained in countries where the future utilization of losses are uncertain. The Company's effective tax rate could also fluctuate due to changes in the valuation of its deferred tax assets or liabilities, or by changes in tax laws, regulations, accounting principles, or interpretations thereof. In addition, the Company is occasionally subject to examination of its income tax returns by tax authorities in the jurisdictions it operates. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes.

The amount of unrecognized tax benefits for uncertain tax positions was \$22.5 million as of March 31, 2016 and \$21.1 million as of December 31, 2015, excluding related liabilities for interest and penalties of \$2.1 million and \$2.2 million as of March 31, 2016 and December 31, 2015, respectively.

The Company believes it is reasonably possible that the total amount of unrecognized tax benefits will decrease within the next 12 months by approximately \$1.6 million, due to the settlement of various audits and the expiration of statutes of limitation.

**14. Commitments and Contingencies***Legal Proceedings*

On September 23, 2015, a jury verdict was returned against ACI Worldwide Corp. (ACI Corp.), a subsidiary of the Company, for \$43.8 million in connection with counterclaims brought by Baldwin Hackett & Meeks, Inc. (BHMI) in the District Court of Douglas County, Nebraska. On September 21, 2012, ACI Corp. had sued BHMI for misappropriation of ACI Corp.'s trade secrets. The jury found that ACI Corp. had not met its burden of proof regarding these claims. On March 6, 2013, BHMI asserted counterclaims for breach of a non-disclosure agreement, tortious interference and violation of the Nebraska anti-monopoly statute, all of which were alleged to arise out of ACI Corp.'s filing of its lawsuit. On September 23, 2015, the jury found for BHMI on its counterclaims and awarded \$43.8 million in damages. On January 5, 2016, the court entered a judgment against ACI Corp. for \$43.8 million for damages and \$2.7 million for attorney fees and costs. ACI Corp. disagrees with the verdicts and judgment, and after the trial court denied ACI Corp.'s post-judgment motions, on March 31, 2016, ACI Corp. perfected an appeal of the dismissal of its

claims against BHMI and the judgment in favor of BHMI on its counterclaims. While there necessarily can be no assurance of the result of the litigation, the Company has determined that it does not have a probable loss with respect to this litigation and that the amount of loss, if any, cannot be reasonably estimated. Accordingly, the Company has not accrued for this litigation.

*Indemnities*

Under certain customer contracts, the Company indemnifies customers for certain matters including third party claims of intellectual property infringement relating to the use of our products. Our maximum potential exposure under indemnification arrangements can range from a specified dollar amount to an unlimited amount, depending on the nature of the transactions and the agreements. The Company has recorded an accrual for estimated losses for demands for indemnification that have been tendered by certain customers. The Company does not have any reason to believe that we will be required to make any material payments under these indemnity provisions in excess of the balance accrued at March 31, 2016.



---

**Table of Contents****15. Accumulated Other Comprehensive Gain (Loss)**

Activity within accumulated other comprehensive gain (loss) for the three months ended March 31, 2016, which consists of foreign currency translation adjustments, were as follows:

	<b>Accumulated other comprehensive loss</b>
Balance at December 31, 2015	\$ (71,576)
Other comprehensive income gain	6,115
Balance at March 31, 2016	\$ (65,461)

**Table of Contents**

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

This report contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Generally, forward-looking statements do not relate strictly to historical or current facts and may include words or phrases such as believes, will, expects, anticipates, intends, and words and phrases of similar impact. Forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended.

Forward-looking statements in this report include, but are not limited to, statements regarding future operations, business strategy, business environment, key trends, and, in each case, statements related to expected financial and other benefits. Many of these factors will be important in determining our actual future results. Any or all of the forward-looking statements in this report may turn out to be incorrect. They may be based on inaccurate assumptions or may not account for known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially from those expressed or implied in any forward-looking statements, and our business, financial condition and results of operations could be materially and adversely affected. In addition, we disclaim any obligation to update any forward-looking statements after the date of this report, except as required by law.

All of the forward-looking statements in this report are expressly qualified by the risk factors discussed in our filings with the Securities and Exchange Commission (SEC). Such factors include, but are not limited to, risks related to:

- increased competition;
- the performance of our strategic products, Universal Payments solutions;
- demand for our products;
- restrictions and other financial covenants in our credit facility;
- our sale of CFS assets and liabilities to Fiserv, including potential claims arising under the transaction agreement, the transition services agreement or with respect to retained liabilities;
- consolidations and failures in the financial services industry;
- customer reluctance to switch to a new vendor;

our strategy to migrate customers to our next generation products;

the accuracy of management's backlog estimates;

failure to obtain renewals of customer contracts or to obtain such renewals on favorable terms;

delay or cancellation of customer projects or inaccurate project completion estimates;

global economic conditions impact on demand for our products and services;

volatility and disruption of the capital and credit markets and adverse changes in the global economy;

difficulty meeting our debt service requirements;

impairment of our goodwill or intangible assets;

the appeal of the judgment in excess of \$46.5 million against us in the BHMI litigation, for which there is no assurance we will be successful in overturning that judgment;

pending and future litigation;

future acquisitions, strategic partnerships and investments;

difficulties integrating PAY.ON AG and its subsidiaries (collectively "PAY.ON"), which may cause us to fail to realize anticipated benefits of the acquisition;

the complexity of our products and services and the risk that they may contain hidden defects;

failing to comply with money transmitter rules and regulations;

compliance of our products with applicable legislation, governmental regulations and industry standards;

our compliance with privacy regulations;

being subject to security breaches or viruses;

the protection of our intellectual property;

certain payment funding methods expose us to the credit and/or operating risk of our clients;

the cyclical nature of our revenue and earnings and the accuracy of forecasts due to the concentration of revenue generating activity during the final weeks of each quarter;

business interruptions or failure of our information technology and communication systems;

our offshore software development activities;

operating internationally;

exposure to unknown tax liabilities; and

volatility in our stock price.

The cautionary statements in this report expressly qualify all of our forward-looking statements.

## Table of Contents

The following discussion should be read together with our financial statements and related notes contained in this report and with the financial statements and related notes and Management's Discussion & Analysis in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed February 26, 2016. Results for the three months ended March 31, 2016, are not necessarily indicative of results that may be attained in the future.

## **Overview**

ACI Worldwide, the Universal Payments (UP) company, powers electronic payments for more than 5,000 organizations around the world. More than 1,000 of the largest financial institutions and intermediaries as well as 300 of the leading global retailers rely on ACI to execute \$14 trillion each day in payments. In addition, thousands of organizations utilize our electronic bill presentment and payment services. Through our comprehensive suite of software and SaaS-based solutions, we deliver real-time, any-to-any payments capabilities and enable the industry's most complete omni-channel payments experience.

In addition to our own products, we distribute, or act as a sales agent for, software developed by third parties. Our products are sold and supported through distribution networks covering three geographic regions—the Americas, EMEA, and Asia/Pacific. Each distribution network has its own globally coordinated sales force and supplements its sales force with independent reseller and/or distributor networks. Our products and services are used principally by financial institutions, retailers, and electronic payment processors, both in domestic and international markets. Accordingly, our business and operating results are influenced by trends such as information technology spending levels, the growth rate of the electronic payments industry, mandated regulatory changes, and changes in the number and type of customers in the financial services industry. Our products are marketed under the ACI Worldwide and ACI Universal Payment Systems brands.

We derive a majority of our revenues from domestic operations and believe we have large opportunities for growth in international markets as well as continued expansion domestically in the United States. Refining our global infrastructure is a critical component of driving our growth. We have launched a globalization strategy which includes elements intended to streamline our supply chain and maximize expertise in several geographic locations to support a growing international customer base and competitive needs. We utilize our Irish subsidiaries to manage certain of our intellectual property rights and to oversee and manage certain international product development and commercialization efforts. We also continue to grow centers of expertise in Timisoara, Romania; Pune and Bangalore, India; as well as key operational centers such as Capetown, South Africa and in multiple locations in the United States.

Key trends that currently impact our strategies and operations include:

**Increasing electronic payment transaction volumes.** Electronic payment volumes continue to increase around the world, taking market share from traditional cash and check transactions. The Boston Consulting Group predicts that electronic payment transactions will grow in volume at an annual rate of 6.6%, from 454.6 billion in 2015 to 624.6 billion in 2020, with varying growth rates based on the type of payment and part of the world. We leverage the growth in transaction volumes through the licensing of new systems to customers whose older systems cannot handle increased volume and through the licensing of capacity upgrades to existing customers.

**Adoption of real-time payments.** Customer expectations, from both consumers and corporate, are driving the payments world to more real-time delivery. In the UK, payments sent through the traditional ACH multi-day batch service can now be sent through the Faster Payments service giving almost immediate access to the funds and this is being considered in several countries including Australia and the US. Corporate customers expect real-time information on the status of their payments instead of waiting for an end of day report. And regulators expect banks to

be monitoring key measures like liquidity in real time. ACI's focus has always been on the real-time execution of transactions and delivery of information through real-time tools such as dashboards so our experience will be valuable in addressing this trend.

**Increasing competition.** The electronic payments market is highly competitive and subject to rapid change. Our competition comes from in-house information technology departments, third-party electronic payment processors, and third-party software companies located both within and outside of the United States. Many of these companies are significantly larger than us and have significantly greater financial, technical, and marketing resources. As electronic payment transaction volumes increase, third-party processors tend to provide competition to our solutions, particularly among customers that do not seek to differentiate their electronic payment offerings or are eliminating banks from the payments service reducing the need for our solutions. As consolidation in the financial services industry continues, we anticipate that competition for those customers will intensify.

**Adoption of cloud technology.** In an effort to leverage lower-cost computing technologies some financial institutions, retailers and electronic payment processors are seeking to transition their systems to make use of cloud technology. Our investment in ACI On Demand provides us the grounding to deliver cloud capabilities in the future.

---

**Table of Contents**

**Electronic payments fraud and compliance.** As electronic payment transaction volumes increase, criminal elements continue to find ways to commit a growing volume of fraudulent transactions using a wide range of techniques. Financial institutions, retailers and electronic payment processors continue to seek ways to leverage new technologies to identify and prevent fraudulent transactions and other attacks such as denial of service attacks. Due to concerns with international terrorism and money laundering, financial institutions in particular are being faced with increasing scrutiny and regulatory pressures. We continue to see opportunity to offer our fraud detection solutions to help customers manage the growing levels of electronic payment fraud and compliance activity.

**Adoption of smartcard technology.** In many markets, card issuers are being required to issue new cards with embedded chip technology, with the liability shift going into effect in 2015 in the United States. Chip-based cards are more secure, harder to copy and offer the opportunity for multiple functions on one card (e.g. debit, credit, electronic purse, identification, health records, etc.). The EMV standard for issuing and processing debit and credit card transactions has emerged as the global standard, with many regions throughout the world working on EMV rollouts. The primary benefit of EMV deployment is a reduction in card present payment fraud, with the additional benefit that the core infrastructure necessary for multi-function chip cards is being put in place (e.g., chip card readers in ATMs and POS devices) allowing the deployment of other technologies like contactless. EMV would not prevent the data breaches which have occurred at major retailers in the past 36 months, however EMV makes the cards more difficult to use at the physical point of sale. This results in greater card not present fraud (e.g. fraud at e-commerce sites).

**Single Euro Payments Area ( SEPA ).** The SEPA, primarily focused on the European Economic Community and the United Kingdom, is designed to facilitate lower costs for cross-border payments and reduce timeframes for settling electronic payment transactions. Recent moves to set an end date for the transition to SEPA payment mechanisms will drive more volume to these systems with the potential to cause banks to review the capabilities of the systems supporting these payments. Our retail and wholesale banking solutions facilitate key functions that help financial institutions address these mandated regulations.

**European Payment Service Directive ( PSD2 ).** PSD2, which was ratified by the European Parliament in 2015 will force member states to implement new payment regulation before 2017. The XS2A provision effectively creates a new market opportunity where banks in EU member countries must provide open API standards to customer data thus allowing authorized third-party providers to enter the market.

**Financial institution consolidation.** Consolidation continues on a national and international basis, as financial institutions seek to add market share and increase overall efficiency. Such consolidations have increased, and may continue to increase, in their number, size and market impact as a result of recent economic conditions affecting the banking and financial industries. There are several potential negative effects of increased consolidation activity. Continuing consolidation of financial institutions may result in a smaller number of existing and potential customers for our products and services. Consolidation of two of our customers could result in reduced revenues if the combined entity were to negotiate greater volume discounts or discontinue use of certain of our products. Additionally, if a non-customer and a customer combine and the combined entity decides to forego future use of our products, our revenue would decline. Conversely, we could benefit from the combination of a non-customer and a customer when the combined entity continues use of our products and, as a larger combined entity, increases its demand for our products and services. We tend to focus on larger financial institutions as customers, often resulting in our solutions being the solutions that survive in the consolidated entity.

**Global vendor sourcing.** Global and regional financial institutions, processors and retailers are aiming to reduce the costs in supplier management by picking suppliers who can service them across all their geographies instead of allowing each country operation to choose suppliers independently. Our global footprint from both customer and a delivery perspective enable us to be successful in this global sourced market. However, projects in these environments

tend to be more complex and therefore of higher risk.

**Electronic payments convergence.** As electronic payment volumes grow and pressures to lower overall cost per transaction increase, financial institutions are seeking methods to consolidate their payment processing across the enterprise. We believe that the strategy of using service-oriented-architectures to allow for re-use of common electronic payment functions such as authentication, authorization, routing and settlement will become more common. Using these techniques, financial institutions will be able to reduce costs, increase overall service levels, enable one-to-one marketing in multiple bank channels, leverage volumes for improved pricing and liquidity, and manage enterprise risk. Our product strategy is, in part, focused on this trend, by creating integrated payment functions that can be re-used by multiple bank channels, across both the consumer and wholesale bank. While this trend presents an opportunity for us, it may also expand the competition from third-party electronic payment technology and service providers specializing in other forms of electronic payments. Many of these providers are larger than us and have significantly greater financial, technical and marketing resources.

**Mobile banking and payments.** There is a growing demand for the ability to carry out banking services or make payments using a mobile phone. Recent statistics from Javelin Strategy & Research, a subsidiary of Greenwich Associates, show that 50% of adults in the United States use their phone for mobile banking. The use of phones for mobile banking is expected to



## Table of Contents

grow to 81% in 2020. Our customers have been making use of existing products to deploy mobile banking, mobile payment and mobile commerce solutions for their customers in many countries. In addition, ACI has invested in mobile products of our own and via partnerships to support mobile functionality in the marketplace.

**Electronic Bill Payment and Presentment (EBPP).** EBPP encompasses all facets of bill payment, including biller direct, where customers initiate payments on biller websites, the consolidator model, where customers initiate payments on a financial institution website, and walk-in bill payment, as one might find in a convenience store. The EBPP market continues to grow as consumers move away from traditional forms of paper-based payments. According to Javelin Strategy & Research, a subsidiary of Greenwich Associates, the number of households paying at biller websites was projected to increase from 51 million in 2014 to 57 million in 2019, a 2.8% CAGR, while the number of households paying at financial institution websites was projected to increase from 56 million in 2014 to 68 million in 2019, a 5% CAGR. The consolidator model or bank bill pay segment has grown as financial institutions view these services as sticky. Similarly, the biller direct segment is seeing strong growth as billers migrate these services to outsourcers, such as ACI, from legacy systems built in-house. We believe that EBPP remains ripe for outsourcing, as a significant amount of biller-direct transactions are still processed in house. As billers seek to manage costs and improve efficiency, we believe that they will continue to look to third-party EBPP vendors that can offer a complete solution for their billing needs.

The banking, financial services and payments industries have come under increased scrutiny from federal, state and foreign lawmakers and regulators in response to the crises in the financial markets and the global recession. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was signed into law July 21, 2010, represents a comprehensive overhaul of the U.S. financial services industry and requires the implementation of many new regulations that will have a direct impact on our customers and potential customers. This is not limited to the United States, in April 2014, the European Commission voted to adopt a number of amendments with regards to the Payment Services Directive, placing further pressure on industry incumbents.

These regulatory changes may create both opportunities and challenges for us. The application of the new regulations on our customers could create an opportunity for us to market our product capabilities and the flexibility of our solutions to assist our customers in addressing these regulations. At the same time, these regulatory changes may have an adverse impact on our operations and our financial results as we adjust our activities in light of increased compliance costs and customer requirements. It is currently too difficult to predict the long term extent to which the Dodd-Frank Act, Payment Services Directive or the resulting regulations will impact our business and the businesses of our current and potential customers.

Several other factors related to our business may have a significant impact on our operating results from year to year. For example, the accounting rules governing the timing of revenue recognition in the software industry are complex and it can be difficult to estimate when we will recognize revenue generated by a given transaction. Factors such as maturity of the software product licensed, payment terms, creditworthiness of the customer, and timing of delivery or acceptance of our products often cause revenues related to sales generated in one period to be deferred and recognized in later periods. For arrangements in which services revenue is deferred, related direct and incremental costs may also be deferred. Additionally, while the majority of our contracts are denominated in the United States dollar, a substantial portion of our sales are made, and some of our expenses are incurred, in the local currency of countries other than the United States. Fluctuations in currency exchange rates in a given period may result in the recognition of gains or losses for that period.

We continue to seek ways to grow through organic sources, partnerships, alliances, and acquisitions. We continually look for potential acquisitions designed to improve our solutions breadth or provide access to new markets. As part of our acquisition strategy, we seek acquisition candidates that are strategic, capable of being integrated into our

operating environment, and financially accretive to our financial performance.

### **Divestiture**

On March 3, 2016, we completed the sale of our Community Financial Services ( CFS ) related assets and liabilities, a part of the Americas segment, to Fiserv, Inc. ( Fiserv ) for \$200.0 million. The sale of CFS, which was not strategic to our long-term strategy, is part of the Company's ongoing efforts to expand as a provider of software products and SaaS-based solutions facilitating real-time electronic and eCommerce payments for large financial institutions, intermediaries, retailers, and billers worldwide. The sale includes employees and customer contracts as well as technology assets and intellectual property.

For the three months ended March 31, 2016, we recognized a net after-tax gain of \$93.7 million on sale of assets to Fiserv. This gain is preliminary subject to finalization of post-closing adjustments pursuant to the definitive transaction agreement.

## Table of Contents

### **Backlog**

Included in backlog estimates are all software license fees, maintenance fees and services fees specified in executed contracts, as well as revenues from assumed contract renewals to the extent that we believe recognition of the related revenue will occur within the corresponding backlog period. We have historically included assumed renewals in backlog estimates based upon automatic renewal provisions in the executed contract and our historic experience with customer renewal rates.

Our 60-month backlog estimate represents expected revenues from existing customers using the following key assumptions:

- ; Maintenance fees are assumed to exist for the duration of the license term for those contracts in which the committed maintenance term is less than the committed license term.
  - ; License, facilities management, and software hosting arrangements are assumed to renew at the end of their committed term at a rate consistent with our historical experiences.
  - ; Non-recurring license arrangements are assumed to renew as recurring revenue streams.
  - ; Foreign currency exchange rates are assumed to remain constant over the 60-month backlog period for those contracts stated in currencies other than the U.S. dollar.
  - ; Our pricing policies and practices are assumed to remain constant over the 60-month backlog period.
- In computing our 60-month backlog estimate, the following items are specifically not taken into account:

- ; Anticipated increases in transaction, account, or processing volumes in customer systems.
- ; Optional annual uplifts or inflationary increases in recurring fees.
- ; Services engagements, other than facilities management and software hosting engagements, are not assumed to renew over the 60-month backlog period.
- ; The potential impact of merger activity within our markets and/or customers.

We review our customer renewal experience on an annual basis. The impact of this review and subsequent update may result in a revision to the renewal assumptions used in computing the 60-month and 12-month backlog estimates. In the event a revision to renewal assumptions is determined to be necessary, prior periods will be adjusted for comparability purposes.

The following table sets forth our 60-month backlog estimate, by geographic region, as of March 31, 2016 and December 31, 2015 (in millions). As a result of the sale of CFS assets and the related customer contracts, 60-month backlog decreased \$355.5 million. Dollar amounts reflect foreign currency exchange rates as of each period end.

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
Americas	\$ 2,783	\$ 3,086
EMEA	922	898
Asia/Pacific	325	318
Total	\$ 4,030	\$ 4,302

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
Committed	\$ 1,744	\$ 1,876
Renewal	2,286	2,426
Total	\$ 4,030	\$ 4,302

Included in our 60-month backlog estimates are amounts expected to be recognized during the initial license term of customer contracts ( Committed Backlog ) and amounts expected to be recognized from assumed renewals of existing customer contracts ( Renewal Backlog ). Amounts expected to be recognized from assumed contract renewals are based on our historical renewal experience.

We also estimate 12-month backlog, segregated between monthly recurring and non-recurring revenues, using a methodology consistent with the 60-month backlog estimate. Monthly recurring revenues include all monthly license fees, maintenance fees and processing services fees. Non-recurring revenues include other software license fees and services fees. Amounts included

**Table of Contents**

in our 12-month backlog estimate assume renewal of one-time license fees on a monthly fee basis if such renewal is expected to occur in the next 12 months. The following table sets forth our 12-month backlog estimate, by geographic segment, as of March 31, 2016 and December 31, 2015 (in millions). For all periods reported, approximately 80% of our 12-month backlog estimate is committed backlog and approximately 20% of our 12-month backlog estimate is renewal backlog. As a result of the sale of CFS assets and the related customer contracts, 12-month backlog decreased \$79.8 million. Dollar amounts reflect currency exchange rates as of each period end.

	March 31, 2016			December 31, 2015		
	Monthly		Total	Monthly		Total
	Recurring	Non-Recurring		Recurring	Non-Recurring	
Americas	\$ 536	\$ 54	\$ 590	\$ 598	\$ 60	\$ 658
EMEA	164	37	201	160	31	191
Asia/Pacific	56	15	71	54	15	69
Total	\$ 756	\$ 106	\$ 862	\$ 812	\$ 106	\$ 918

Estimates of future financial results require substantial judgment and are based on a number of assumptions as described above. These assumptions may turn out to be inaccurate or wrong, including for reasons outside of management's control. For example, our customers may attempt to renegotiate or terminate their contracts for a number of reasons, including mergers, changes in their financial condition, or general changes in economic conditions in the customer's industry or geographic location, or we may experience delays in the development or delivery of products or services specified in customer contracts which may cause the actual renewal rates and amounts to differ from historical experiences. Changes in foreign currency exchange rates may also impact the amount of revenue actually recognized in future periods. Accordingly, there can be no assurance that amounts included in backlog estimates will actually generate the specified revenues or that the actual revenues will be generated within the corresponding 12-month or 60-month period. Additionally, because backlog estimates are operating metrics, the estimates are not required to be subject to the same level of internal review or controls as a GAAP financial measure.

**RESULTS OF OPERATIONS**

The following table presents the condensed consolidated statements of operations as well as the percentage relationship to total revenues of items included in our condensed consolidated statements of operations (amounts in thousands):

**Three-Month Period Ended March 31, 2016 Compared to the Three-Month Period Ended March 31, 2015****Revenues**

	Amount	2016			2015	
		% of Total Revenue	\$ Change vs 2015	% Change vs 2015	Amount	% of Total Revenue
Revenues:						
Initial license fees (ILFs)	\$ 20,365	9%	\$ 32	0%	\$ 20,333	9%
Monthly license fees (MLFs)	17,058	8%	(2,186)	-11%	19,244	8%

Edgar Filing: ACI WORLDWIDE, INC. - Form 10-Q

License	37,423	17%	(2,154)	-5%	39,577	17%
Maintenance	57,331	25%	(2,161)	-4%	59,492	26%
Services	19,576	9%	(3,921)	-17%	23,497	10%
Hosting	111,736	49%	1,485	1%	110,251	47%
Total revenues	\$ 226,066	100%	\$ (6,751)	-3%	\$ 232,817	100%

Total revenue for the three months ended March 31, 2016, decreased \$6.8 million, or 3%, as compared to the same period in 2015. The decrease is the result of a \$2.2 million, or 5%, decrease in license revenue, a \$2.2 million, or 4%, decrease in maintenance revenue, a \$3.9 million, or 17%, decrease in services revenue and partially offset by a \$1.5 million, or 1%, increase in hosting revenue.

The decrease in total revenue for the three months ended March 31, 2016, as compared to the same period in 2015 was due to an \$7.5 million, or 5%, decrease in the Americas reportable segment partially offset by a \$0.3 million, or 1%, increase in the EMEA reportable segment and a \$0.5 million, or 3%, increase in the Asia/Pacific reportable segment.

---

**Table of Contents**

The addition of PAY.ON contributed \$4.2 million in total revenue for the three months ended March 31, 2016, compared to the same period in 2015. Total revenue was \$3.2 million lower for the three months ended March 31, 2016, compared to the same period in 2015 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of the addition of PAY.ON and foreign currency, total revenue for the three months ended March 31, 2016, decreased \$7.8 million, or 3%, compared to the same period in 2015 primarily due to the CFS divestiture which resulted in a decrease in revenue of \$8.2 million.

*License Revenue*

Customers purchase the right to license ACI software for the term of their agreement which is generally 60 months. Within these agreements are specified capacity limits typically based on customer transaction volume. ACI employs measurement tools that monitor the number of transactions processed by customers and if contractually specified limits are exceeded, additional fees are charged for the overage. Capacity overages may occur at varying times throughout the term of the agreement depending on the product, the size of the customer, and the significance of customer transaction volume growth. Depending on specific circumstances, multiple overages or no overages may occur during the term of the agreement.

*Initial License Revenue*

Initial license revenue includes license and capacity revenues that do not recur on a monthly or quarterly basis. Included in initial license revenue are license and capacity fees that are recognizable at the inception of the agreement and license and capacity fees that are recognizable at interim points during the term of the agreement, including those that are recognizable annually due to negotiated customer payment terms. Initial license revenue during the three months ended March 31, 2016, as compared to the same period in 2015, remained flat. Initial license revenue increased in the EMEA and Asia/Pacific reportable segments by \$1.0 million and \$1.4 million, respectively, and was offset by a decrease in the Americas reportable segment of \$2.4 million. Total initial license revenue was \$0.3 million lower for the three months ended March 31, 2016, compared to the same period in 2015 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of foreign currency, total initial license revenue for the three months ended March 31, 2016, increased \$0.3 million, or 1%, compared to the same period in 2015

*Monthly License Revenue*

Monthly license revenue is license and capacity revenue that is paid monthly or quarterly due to negotiated customer payment terms as well as initial license and capacity fees that are recognized as revenue ratably over an extended period as monthly license revenue. Monthly license revenue decreased \$2.2 million, or 11%, during the three months ended March 31, 2016, as compared to the same period in 2015 with the Americas and EMEA reportable segments decreasing by \$1.5 million and \$0.7 million, respectively, and the Asia/Pacific reportable segment remaining flat.

Total monthly license revenue was \$0.3 million lower for the three months ended March 31, 2016, compared to the same period in 2015 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of foreign currency, total monthly license revenue for the three months ended March 31, 2016, decreased \$1.9 million, or 10%, compared to the same period in 2015 primarily due to the CFS divestiture which resulted in a decrease of \$1.1 million.

*Maintenance Revenue*

Maintenance revenue includes standard and premium maintenance or any post contract support fees received from customers for the provision of product support services. Maintenance revenue during the three months ended

March 31, 2016, as compared to the same period in 2015 decreased \$2.2 million, or 4%. Maintenance revenue decreased in the EMEA and Asia/Pacific reportable segments by \$2.0 million and \$0.6 million, respectively, and was partially offset by an increase in the Americas reportable segment of \$0.4 million. Total maintenance revenue was \$1.5 million lower for the three months ended March 31, 2016, as compared to the same period in 2015 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of foreign currency, total maintenance revenue for the three months ended March 31, 2016, decreased \$0.7 million, or 1%, compared to the same period in 2015.

### *Services Revenue*

Services revenue includes fees earned through implementation services, professional services and facilities management services. Implementation services include product installations, product configurations, and custom software modifications ( CSMS ). Professional services include business consultancy, technical consultancy, on-site support services, CSMS, product education, and testing services. These services include new customer implementations as well as existing customer migrations to new products or new releases of existing products. During the period in which non-essential services revenue is being deferred, direct and incremental costs related to the performance of these services are also being deferred. During the period in which essential services revenue is being deferred, direct and indirect costs related to the performance of these services are also being deferred.

Services revenue during the three months ended March 31, 2016, as compared to the same period in 2015 decreased by \$3.9 million, or 17%. Implementation and professional services decreased in the Americas, EMEA and Asia/Pacific reportable segments by \$1.3 million, \$2.3 million, and \$0.3 million, respectively.



**Table of Contents**

Total services revenue was \$0.7 million lower for the three months ended March 31, 2016, as compared to the same period in 2015 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of foreign currency, total services revenue for the three months ended March, 31, 2016, decreased \$3.2 million, or 14%, compared to the same period in 2015. The decrease was a result of \$3.5 million of services revenue related to large, complex projects being recognized during the three months ended March 31, 2015, that did not reoccur in the same period in 2016. Excluding the impact of the revenue recognized from these projects, services revenue decreased \$0.3 million. The Company's customers continue to transition from on premise to hosted software solutions. Services work performed in relation to the Company's hosted software solutions is recognized over a longer service period and is classified as hosting

*Hosting Revenue*

Hosting revenue includes fees earned through hosting and on-demand arrangements. All revenue from hosting and on-demand arrangements that does not qualify for treatment as separate units of accounting, which include set-up fees, implementation or customization services, and product support services, are included in hosting revenue. For 2016 and 2015, hosting revenue also includes fees paid by our clients as a part of the acquired EBPP and Payment Risk Management products. Fees may be paid by our clients or directly by their customers and may be a percentage of the underlying transaction amount, a fixed fee per executed transaction or a monthly fee for each customer enrolled.

Hosting revenue during the three months ended March 31, 2016, as compared to the same period in 2015 increased \$1.5 million, or 1%. The addition of PAY.ON contributed \$4.2 million in hosted revenue. The CFS divestiture resulted in decreased hosting revenue of \$7.5 million during the three months ended March 31, 2016. Total hosting revenue was \$0.4 million lower for the three months ended March 31, 2016, compared to the same period in 2015 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of PAY.ON, CFS and foreign currency, total hosting revenue for the three months ended March 31, 2016, increased \$5.2 million, or 5%, compared to the same period in 2015, which is primarily attributed to new customers adopting our on-demand or hosted offerings and existing customers adding new functionality or increasing processing.

**Operating Expenses**

	2016				2015	
	Amount	% of Total Revenue	\$ Change vs 2015	% Change vs 2015	Amount	% of Total Revenue
Operating expenses:						
Cost of license	\$ 5,439	2%	\$ (670)	-11%	\$ 6,109	3%
Cost of maintenance, services and hosting	113,044	50%	31	0%	113,013	49%
Research and development	43,518	19%	6,427	17%	37,091	16%
Selling and marketing	30,000	13%	1,089	4%	28,911	12%
General and administrative	25,878	11%	4,303	20%	21,575	9%
Gain on sale of assets	(151,952)	-67%	(151,952)	100%		0%
Depreciation and amortization	23,208	10%	3,515	18%	19,693	8%
Total operating expenses	\$ 89,135	39%	\$ (137,257)	-61%	\$ 226,392	97%

Total operating expenses for the three months ended March 31, 2016 decreased \$137.3 million, or 61%, as compared to the same period in 2015, primarily due to the gain recognized on the sale of the CFS assets of \$152.0 million. In 2016, there were \$7.5 million of incremental operating expenses related to PAY.ON and \$8.8 million of reduced operating expenses related to the CFS divestiture. Total operating expenses were \$4.5 million lower for the three months ended March 31, 2016, compared to the same period in 2015, due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of PAY.ON, CFS and foreign currency, operating expenses increased \$20.5 million in the three months ended March 31, 2016 principally reflecting higher cost of maintenance, services and hosting, higher research and development expenses, and higher general and administrative expenses.

#### *Cost of License*

The cost of license for our products sold includes third-party software royalties as well as the amortization of purchased and developed software for resale. In general, the cost of license for our products is minimal because we internally develop most of the software components, the cost of which is reflected in research and development expense as it is incurred as technological feasibility coincides with general availability of the software components.

Cost of license expense decreased \$0.7 million in the three months ended March 31, 2016, primarily due to lower intangible amortization of software.

---

**Table of Contents***Cost of Maintenance, Services and Hosting*

Cost of maintenance, services and hosting includes costs to provide hosting services and both the costs of maintaining our software products as well as the service costs required to deliver, install and support software at customer sites. Maintenance costs include the efforts associated with providing the customer with upgrades, 24-hour help desk, post go-live (remote) support and production-type support for software that was previously installed at a customer location. Service costs include human resource costs and other incidental costs such as travel and training required for both pre go-live and post go-live support. Such efforts include project management, delivery, product customization and implementation, installation support, consulting, configuration, and on-site support. Hosting costs related to the acquired EBPP products include payment card interchange fees, assessments payable to banks and payment card processing fees.

Cost of maintenance, services and hosting increased less than \$0.1 million, or less than 1%, in the three months ended March 31, 2016, compared to the same period in 2015. In 2016, there were \$1.0 million of incremental maintenance, services and hosting expenses related to PAY.ON and \$6.5 million of reduced maintenance, services and hosting expenses as a result of the CFS divestiture. Maintenance, services and hosting expenses were approximately \$1.7 million lower due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of PAY.ON, CFS and foreign currency, maintenance, services, and hosting expenses increased \$7.3 million in the three months ended March 31, 2016, due to \$4.3 million more personnel and related expenses and a \$3.0 million increase in interchange processing fees.

*Research and Development*

Research and development ( R&D ) expenses are primarily human resource costs related to the creation of new products, improvements made to existing products as well as compatibility with new operating system releases and generations of hardware.

Research and development expense increased \$6.4 million, or 17%, in the three months ended March 31, 2016, compared to the same period in 2015. In 2016, there were \$2.9 million of incremental research and development expenses related to PAY.ON and \$0.5 million of reduced research and development expenses as a result of the CFS divestiture. Research and development expenses were approximately \$0.8 million lower due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of PAY.ON, CFS and foreign currency, research and development expenses increased \$4.8 million in the three months ended March 31, 2016, primarily due to an increase in personnel and related expenses, including a \$1.1 million increase in stock-based compensation.

*Selling and Marketing*

Selling and marketing includes both the costs related to selling our products to current and prospective customers as well as the costs related to promoting the Company, its products and the research efforts required to measure customers' future needs and satisfaction levels. Selling costs are primarily the human resource and travel costs related to the effort expended to license our products and services to current and potential clients within defined territories and/or industries as well as the management of the overall relationship with customer accounts. Selling costs also include the costs associated with assisting distributors in their efforts to sell our products and services in their respective local markets. Marketing costs include costs needed to promote the Company and its products as well as perform or acquire market research to help us better understand what products our customers are looking for in the future. Marketing costs also include the costs associated with measuring customers' opinions toward the Company, our products and personnel.

Selling and marketing expense increased \$1.1 million, or 4%, in the three months ended March 31, 2016, compared to the same period in 2015. In 2016, there were \$0.9 million of incremental sales and marketing expenses related to PAY.ON, and \$0.9 million of reduced sales and marketing expenses due to the CFS divestiture. Sales and marketing expenses were \$1.0 million lower for the three months ended March 31, 2016, compared to the same period in 2015, due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of PAY.ON, CFS and foreign currency, sales and marketing expenses increased \$2.1 million in the three months ended March 31, 2016 primarily due to an increase in personnel and related expenses.

*General and Administrative*

General and administrative expenses are primarily human resource costs including executive salaries and benefits, personnel administration costs, and the costs of corporate support functions such as legal, administrative, human resources and finance and accounting.

General and administrative expense increased \$4.3 million, or 20%, in the three months ended March 31, 2016, compared to the same period in 2015. In 2016, there were \$0.6 million of incremental general and administrative expenses related to PAY.ON and \$0.5 million of reduced general and administrative expenses due to the CFS divestiture. General and administrative expenses were approximately \$0.7 million lower due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of PAY.ON, CFS and foreign currency, general and administrative expenses increased \$4.9 million in the three months ended March 31, 2016, primarily due to a \$2.8 million increase in stock-based compensation expense, a \$1.0 million increase in one time acquisition and divestiture expenditures and a \$1.1 million increase in professional fees.

**Table of Contents***Gain on Sale of CFS Assets*

On March 3, 2016, the Company completed the sale of its CFS related assets and liabilities to Fiserv, Inc. ( Fiserv ) for \$200.0 million and recognized a pre-tax gain of \$152.0 million.

*Depreciation and Amortization*

Depreciation and amortization expense increased \$3.5 million, or 18%, in the three months ended March 31, 2016, compared to the same period in 2014. There were \$2.1 million of incremental expenses related to PAY.ON and \$0.3 million of reduced expenses as a result of the CFS divestiture. Excluding the impact of PAY.ON and CFS, depreciation and amortization expense increased \$1.7 million due to an increase in capital expenditures during the past year.

**Other Income and Expense**

	2016			2015		
	Amount	% of Total Revenue	\$ Change vs 2015	% Change vs 2015	Amount	% of Total Revenue
<b>Other income (expense):</b>						
Interest expense	\$ (10,414)	-5%	\$ 527	-5%	\$ (10,941)	-5%
Interest income	150	0%	48	47%	102	0%
Other, net	(334)	0%	(4,056)	-109%	3,722	2%
<b>Total other income (expense)</b>	<b>\$ (10,598)</b>	<b>-5%</b>	<b>\$ (3,481)</b>	<b>49%</b>	<b>\$ (7,117)</b>	<b>-3%</b>

Interest expense for the three months ended March 31, 2016 decreased \$0.5 million, or 5%, as compared to the same period in 2015 primarily due to lower comparative debt balances during the first three months of 2016.

Other, net consists of foreign currency gain (loss) and other non-operating items. Foreign currency gain (losses) for the three months ended March 31, 2016 and 2015 were (\$0.3) million and \$3.7 million, respectively.

*Income Taxes*

	2016			2015		
	Amount	% of Total Revenue	\$ Change vs 2015	% Change vs 2015	Amount	% of Total Revenue
Income tax expense (benefit)	\$ 36,849	16%	\$ 37,379	-7053%	\$ (530)	0%
Effective income tax rate	29%				77%	

The effective tax rate for the three months ended March 31, 2016 was 29%. The earnings of our foreign entities for the three months ended March 31, 2016 were \$6.9 million. The tax rates in the foreign jurisdictions in which we operate are less than the domestic tax rate. The effective tax rate for the three months ended March 31, 2016 was reduced by foreign profits taxed at lower rates. The effective tax rate was also reduced by a release of \$10.1 million in the valuation allowance previously established against foreign tax credits that are now expected to be fully utilized as a result of the sale of the Community Financial Services assets and liabilities.

The effective tax rate for the three months ended March 31, 2015 was a benefit of 77%. The earnings of our foreign entities for the three months ended March 31, 2015 were \$7.7 million. The tax rates in the foreign jurisdictions in which we operate are less than the domestic tax rate. The effective tax rate for the three months ended March 31, 2015 was increased by losses in certain foreign jurisdictions taxed at lower rates, partially offset by profits in other foreign jurisdictions taxed at lower rates and domestic losses taxed at a higher rate.

Our effective tax rate could fluctuate significantly on a quarterly basis and could be negatively affected to the extent earnings are lower in the countries in which we operate that have a lower statutory rate or higher in the countries in which we operate that have a higher statutory rate or the extent we have losses sustained in countries where the future utilization of losses are uncertain. Our effective tax rate could also fluctuate due to changes in the valuation of our deferred tax assets or liabilities, or by

**Table of Contents**

changes in tax laws, regulations, accounting principles, or interpretations thereof. In addition, we are occasionally subject to examination of our income tax returns by tax authorities in the jurisdictions we operate. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

**Segment Results**

The following table presents revenues and income (loss) before income taxes for the periods indicated by geographic region (in thousands):

(in thousands)	Three Months Ended	
	March 31,	
	2016	2015
Revenues:		
Americas	\$ 156,217	\$ 163,750
EMEA	49,637	49,384
Asia/Pacific	20,212	19,683
	\$ 226,066	\$ 232,817
Income (loss) before income taxes:		
Americas	\$ 149,997	\$ 16,109
EMEA	29,427	20,701
Asia/Pacific	10,566	10,257
Corporate	(63,657)	(47,759)
	\$ 126,333	\$ (692)

Reportable segment results are impacted by both direct expenses and allocated shared function costs such as global product development, global customer operations and global product management. Shared function costs are allocated to the reportable segments as a percentage of revenue or as a percentage of headcount. All administrative costs that are not directly attributable or able to be allocated to a geographic segment are included in the corporate line item.

The decrease in revenue during the three months ended March 31, 2016 is primarily due to the CFS divestiture which resulted in a decrease in revenue of \$8.2 million. The CFS divestiture resulted in a pre-tax gain of approximately \$152.0 million in the Americas segment. The Company incurred significant transaction related expenses of approximately \$4.0 million and \$2.9 million during the three months ended March 31, 2016 and 2015, respectively. Amortization of acquisition software and intangible assets allocated to the Corporate business segment was approximately \$12.7 million and \$12.2 million during the three months ended March 31, 2016 and 2015, respectively. Interest expense on long term debt allocated to the Corporate segment was approximately \$10.4 million and \$11.0 million during the three months ended March 31, 2016 and 2015, respectively.

**Liquidity and Capital Resources***General*

Our primary liquidity needs are: (i) to fund normal operating expenses; (ii) to meet the interest and principal requirements of our outstanding indebtedness; and (iii) to fund acquisitions, capital expenditures and lease payments. We believe these needs will be satisfied using cash flow generated by our operations, our cash and cash equivalents and available borrowings under our revolving credit facility.

As of March 31, 2016, we had \$94.4 million in cash and cash equivalents. Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less.

As of March 31, 2016, \$61.6 million of the \$94.4 million of cash and cash equivalents was held by our foreign subsidiaries. If these funds were needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.



**Table of Contents**

The following table sets forth summary cash flow data for the periods indicated (amounts in thousands).

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Net cash provided by (used by):</b>		
Operating activities	\$ 38,433	\$ 49,167
Investing activities	177,096	(14,497)
Financing activities	(224,524)	(37,637)

Net cash flows provided by operating activities for the three months ended March 31, 2016 amounted to \$38.4 million as compared to \$49.2 million during the same period in 2015. The comparative period decrease was primarily due to the timing of payments and cash collections from customers during the first three months of 2016 compared to the same period in 2015. Our current policy is to use our operating cash flow primarily for funding capital expenditures, lease payments, stock repurchases and acquisitions.

During the first three months of 2016, we received proceeds of \$200.0 million from the sale of the CFS related assets. In addition, we used cash of \$22.9 million to purchase software, property and equipment, and other investments as compared to \$14.5 million during the same period in 2015.

During the three months ended March 31, 2016, we used a portion of the proceeds from the CFS divestiture to repay \$143.0 million on the revolver portion of the Credit Facility and \$23.8 million of the term portion of the Credit Facility. We used \$52.4 million to repurchase shares of our common stock during the first three months of 2016. In addition, during the first three months of 2016, we received proceeds of \$1.1 million, including corresponding excess tax benefits, from the exercises of stock options and the issuance of common stock under our 1999 Employee Stock Purchase Plan, as amended, and used less than \$0.1 million for the repurchase of restricted stock for tax withholdings. During the three months ended March 31, 2015, we repaid a net \$22.0 million on the revolver portion of the Credit Facility and we repaid \$19.9 million of the term portion of the Credit Facility. In addition, during the first three months of 2015, we received proceeds of \$11.1 million, including corresponding excess tax benefits, from the exercises of stock options and the issuance of common stock under our 1999 Employee Stock Purchase Plan, as amended, and used \$4.0 million for the repurchase of restricted stock and performance shares for tax withholdings.

We may decide to use cash to acquire new products and services or enhance existing products and services through acquisitions of other companies, product lines, technologies and personnel, or through investments in other companies.

We believe that our existing sources of liquidity, including cash on hand and cash provided by operating activities, will satisfy our projected liquidity requirements, which primarily consists of working capital requirements, for the next twelve months and foreseeable future.

*Debt*

As of March 31, 2016, we had \$35.0 million and \$436.8 million outstanding under our Revolving Credit Facility and Term Credit Facility, respectively, with up to \$190.0 million of unused borrowings under the Revolving Credit Facility portion of the Credit Agreement, as amended. The amount of unused borrowings actually available varies in accordance with the terms of the agreement. The Credit Agreement contains certain affirmative and negative covenants, including limitations on the incurrence of indebtedness, asset dispositions, acquisitions, investments,

dividends and other restricted payments, liens and transactions with affiliates. The Credit Agreement also contains financial covenants relating to maximum permitted leverage ratio and the minimum fixed charge coverage ratio. The facility does not contain any subjective acceleration features and does not have any required payment or principal reduction schedule and is included as a long-term liability in our condensed consolidated balance sheet. At March 31, 2016 (and at all times during this period) we were in compliance with our debt covenants. The interest rate in effect at March 31, 2016 was 2.69%.

On February 29, 2016, the Company entered into a Letter of Credit, through Wells Fargo with Deutsche Bank as the beneficiary, for \$25.0 million. The Letter of Credit expires on June 15, 2016, with automatic renewal for a six month period thereafter. However, at any time after June 15, 2016, the Company may request to close the Letter of Credit. The Letter of Credit reduces the maximum available borrowings under our Revolving Credit Facility to \$225.0 million. Upon expiration of the Letter of Credit, maximum borrowings will return to \$250.0 million.

## **Table of Contents**

On August 20, 2013, the Company completed a \$300.0 million offering of 6.375% Senior Notes due in 2020 (the Notes ) at an issue price of 100% of the principal amount in a private placement for resale to qualified institutional buyers. The Notes bear an interest rate of 6.375% per annum, payable semi-annually in arrears on August 15 and February 15 of each year, commencing on February 15, 2014. Interest has been accrued from August 20, 2013. The Notes will mature on August 15, 2020.

### *Stock Repurchase Program*

As of December 31, 2011, our Board of Directors had approved a stock repurchase program authorizing us, from time to time as market and business conditions warrant, to acquire up to \$210 million of its common stock. In February 2012, our Board of Directors approved an increase of \$52.1 million to their current stock repurchase authorization, bringing the total authorization to \$262.1 million.

On September 13, 2012, our Board of Directors approved the repurchase of up to 7,500,000 shares of the Company's common stock, or up to \$113.0 million in place of the remaining repurchase amounts previously authorized. In July 2013, the Board of Directors approved an additional \$100 million for the stock repurchase program. In February 2014, they again approved an additional \$100 million for the stock repurchase program.

The Company repurchased 2,842,116 shares for \$56.4 million under the program during the three months ended March 31, 2016. Under the program to date, the Company has repurchased 39,950,633 shares for approximately \$452.2 million. The maximum remaining authorized for purchase under the stock repurchase program was approximately \$81.9 million as of March 31, 2016.

There is no guarantee as to the exact number of shares that will be repurchased by us. Repurchased shares are returned to the status of authorized but unissued shares of common stock. In March 2005, our Board of Directors approved a plan under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate the repurchase of shares of common stock under the existing stock repurchase program. Under our Rule 10b5-1 plan, we have delegated authority over the timing and amount of repurchases to an independent broker who does not have access to inside information about the Company. Rule 10b5-1 allows us, through the independent broker, to purchase shares at times when we ordinarily would not be in the market because of self-imposed trading blackout periods, such as the time immediately preceding the end of the fiscal quarter through a period three business days following our quarterly earnings release.

## **Contractual Obligations and Commercial Commitments**

For the three months ended March 31, 2016, there have been no material changes to the contractual obligations and commercial commitments disclosed in Item 7 of our Form 10-K for the fiscal year ended December 31, 2015.

We are unable to reasonably estimate the ultimate amount or timing of settlement of our reserves for income taxes under Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 740, *Income Tax*. The liability for unrecognized tax benefits at March 31, 2016 is \$22.5 million.

## **Critical Accounting Estimates**

The preparation of the condensed consolidated financial statements requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe to be proper and reasonable under the circumstances. We continually evaluate the appropriateness of estimates and assumptions used in the preparation of our condensed consolidated financial statements. Actual results could differ

from those estimates.

The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition

Allowance for Doubtful Accounts

Business Combinations

Intangible Assets and Goodwill

Stock-Based Compensation

Accounting for Income Taxes

During the three months ended March 31, 2016, there were no significant changes to our critical accounting policies and estimates. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended December 31, 2015, filed on February 26, 2016, for a more complete discussion of our critical accounting policies and estimates.

---

**Table of Contents****Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Excluding the impact of changes in interest rates and the uncertainty in the global financial markets, there have been no material changes to our market risk for the three months ended March 31, 2016. We conduct business in all parts of the world and are thereby exposed to market risks related to fluctuations in foreign currency exchange rates. The U.S. dollar is the single largest currency in which our revenue contracts are denominated. Thus, any decline in the value of local foreign currencies against the U.S. dollar results in our products and services being more expensive to a potential foreign customer, and in those instances where our goods and services have already been sold, may result in the receivables being more difficult to collect. Additionally, any decline in the value of the U.S. dollar in jurisdictions where the revenue contracts are denominated in U.S. dollars and operating expenses are incurred in local currency will have an unfavorable impact to operating margins. We at times enter into revenue contracts that are denominated in the country's local currency, principally in Australia, Canada, the United Kingdom and other European countries. This practice serves as a natural hedge to finance the local currency expenses incurred in those locations. We have not entered into any foreign currency hedging transactions. We do not purchase or hold any derivative financial instruments for the purpose of speculation or arbitrage.

The primary objective of our cash investment policy is to preserve principal without significantly increasing risk. Based on our cash investments and interest rates on these investments at March 31, 2016, and if we maintained this level of similar cash investments for a period of one year, a hypothetical 10 percent increase or decrease in effective interest rates would increase or decrease interest income by less than \$0.04 million annually.

We had approximately \$771.8 million of debt outstanding at March 31, 2016 with \$300.0 million in Senior Notes and \$471.8 million outstanding under our Credit Facility. Our Senior Notes are fixed-rate long-term debt obligations with a 6.375% interest rate. Our Credit Facility has a floating rate which was 2.69% at March 31, 2016. The potential increase (decrease) in interest expense for the Credit Facility from a hypothetical ten percent increase (decrease) in effective interest rates would be approximately \$1.3 million.

**Item 4. CONTROLS AND PROCEDURES***Disclosure Controls and Procedures*

Our management, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report, March 31, 2016. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of March 31, 2016.

*Changes in Internal Control over Financial Reporting*

On November 4, 2015 we completed our acquisition of PAY.ON. We believe the internal controls and procedures of PAY.ON have had a material effect on our internal control over financial reporting. See Note 2, *Acquisitions*, to the Consolidated Financial Statements for discussion of the acquisition and related financial data.

We are currently in the process of integrating PAY.ON operations. We anticipate a successful integration of operations and internal controls over financial reporting. Management will continue to evaluate its internal control over financial reporting as it executes integration activities.

Our management, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer evaluated any change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) during the Company's quarter ended March 31, 2016, and determined that except for the change discussed above, there were no other changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

---

**Table of Contents****PART II OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

From time to time, we are involved in various litigation matters arising in the ordinary course of our business. See Note 14, Commitments and Contingencies, to the Condensed Consolidated Financial Statements for a discussion of legal proceedings.

On September 23, 2015, a jury verdict was returned against ACI Worldwide Corp. ( ACI Corp. ), a subsidiary of the Company, for \$43.8 million in connection with counterclaims brought by Baldwin Hackett & Meeks, Inc. ( BHMI ) in the District Court of Douglas County, Nebraska. On September 21, 2012, ACI Corp. had sued BHMI for misappropriation of ACI Corp. 's trade secrets. The jury found that ACI Corp. had not met its burden of proof regarding these claims. On March 6, 2013, BHMI asserted counterclaims for breach of a non-disclosure agreement, tortious interference and violation of the Nebraska anti-monopoly statute, all of which were alleged to arise out of ACI Corp. 's filing of its lawsuit. On September 23, 2015, the jury found for BHMI on its counterclaims and awarded \$43.8 million in damages. On January 5, 2016, the court entered a judgment against ACI Corp. for \$43.8 million for damages and \$2.7 million for attorney fees and costs. ACI Corp. disagrees with the verdicts and judgment, and after the trial court denied ACI Corp. 's post-judgment motions, on March 31, 2016, ACI Corp. perfected an appeal of the dismissal of its claims against BHMI and the judgment in favor of BHMI on its counterclaims. While there necessarily can be no assurance of the result of the litigation, the Company has determined that it does not have a probable loss with respect to this litigation and that the amount of loss, if any, cannot be reasonably estimated. Accordingly, the Company has not accrued for this litigation.

**Item 1A. RISK FACTORS**

Other than as disclosed below, there have been no material changes to the risk factors disclosed in Item 1A of our Form 10-K for the fiscal year ended December 31, 2015. Additional risks and uncertainties, including risks and uncertainties not presently known to us, or that we currently deem immaterial, could also have an adverse effect on our business, financial condition and/or results of operations.

**We may not be successful in our appeal of the judgment in excess of \$46.5 million against us in the BHMI litigation.**

On January 5, 2016, following a jury verdict that was returned against ACI Worldwide Corp., one of our subsidiaries, for \$43.8 million in connection with counterclaims brought by Baldwin Hackett & Meeks, Inc. ( BHMI ) in the District Court of Douglas County, Nebraska, the court entered a judgment against ACI Corp. for \$43.8 million for damages and \$2.7 million for attorney fees and costs. On March 31, 2016 we perfected our appeal of the dismissal of our claims against BHMI and the judgment against us. However, there can be no assurance that we will be successful on appeal and that we will be able to overturn the judgment. There can further be no assurance that we will be successful in any new trial of the disputes in this litigation.

Our current determination is that we do not have a probable loss with respect to this litigation and that the amount of loss, if any, cannot be reasonably estimated. Accordingly, we have not accrued for a loss associated with this litigation. If our assessment of a probable loss is incorrect and the appeal is not resolved in our favor, or if we are unsuccessful in any subsequent retrial, we may have to make a substantial payment to BHMI. Alternatively, if during the course of our appeal or subsequent new trial, our assessment changes and we determine that a loss is probable and that the loss is reasonably estimable, we will be required to accrue for that potential loss.

Any payment to BHMI or accrual for a loss in this litigation could result in a material adverse effect on our business, financial condition, results of operations and cash flows, especially for the quarter and annual period in which the payment or accrual occurs.

**We may face claims associated with the sale and transition of our Community Financial Services assets and liabilities.**

On March 3, 2016, we completed the sale of our Community Financial Services ( CFS ) related assets and liabilities to Fiserv. In connection with that sale we entered into a transaction agreement and a transition services agreement in which we undertook certain continuing obligations to effect the transition of the assets and liabilities to Fiserv. We could face claims under the transaction agreement, including based on our representations and warranties, covenants and retained liabilities. We could also face claims under the transition services agreement related to our obligations to provide transition services and assistance. Any such claim or claims could result in a material adverse effect on our business, financial condition, results of operations and cash flows.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**Issuer Purchases of Equity Securities**

The following table provides information regarding the Company's repurchases of its common stock during the three months ended March 31, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
January 1, 2016 through January 31, 2016		\$		\$ 138,325,000
February 1, 2016 through February 29, 2016	77,500	18.78	77,500	\$ 136,868,000
March 1, 2016 through March 31, 2016	2,766,705(1)	19.84	2,764,666	\$ 81,945,000
Total	2,844,205	\$ 19.81	2,842,166	

(1) Pursuant to our 2005 Incentive Plan, we granted restricted share awards ( RSAs ). These awards have requisite service periods of either three or four years and vest in increments of either 33% or 25% on the anniversary dates of the grants. Under each arrangement, stock is issued without direct cost to the employee. During the three months ended March 31, 2016, 5,638 shares of the RSAs vested. We withheld 2,039 of those shares to pay the employees' portion of applicable payroll taxes.

In fiscal 2005, we announced that our Board of Directors approved a stock repurchase program authorizing us, from time to time as market and business conditions warrant, to acquire up to \$80 million of our common stock, and that we intended to use existing cash and cash equivalents to fund these repurchases. Our Board of Directors approved an



increase of \$30 million, \$100 million, and \$52.1 million to the stock repurchase program in May 2006, March 2007 and February 2012, respectively, bringing the total of the approved program to \$262.1 million. On September 13, 2012, our Board of Directors approved the repurchase of up to 7,500,000 shares of our common stock, or up to \$113.0 million, in place of the remaining repurchase amounts previously authorized. In July, 2013, our Board of Directors approved an additional \$100 million for stock repurchases. On February 24, 2014, our Board of Directors approved an additional \$100 million for the stock repurchase program. Approximately

**Table of Contents**

\$81.9 million remains available at March 31, 2016. There is no guarantee as to the exact number of shares that will be repurchased by us. Repurchased shares are returned to the status of authorized but unissued shares of common stock. In March 2005, our Board of Directors approved a plan under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate the repurchase of shares of common stock under the existing stock repurchase program. Under our Rule 10b5-1 plan, we have delegated authority over the timing and amount of repurchases to an independent broker who does not have access to inside information about the Company. Rule 10b5-1 allows us, through the independent broker, to purchase shares at times when we ordinarily would not be in the market because of self-imposed trading blackout periods, such as the time immediately preceding the end of the fiscal quarter through a period three business days following our quarterly earnings release.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Item 5. OTHER INFORMATION**

Not applicable.

**Table of Contents****Item 6. EXHIBITS**

The following lists exhibits filed as part of this quarterly report on Form 10-Q:

<b>Exhibit</b>	
<b>No.</b>	<b>Description</b>
3.01 (1)	2013 Amended and Restated Certificate of Incorporation of the Company
3.02 (2)	Amended and Restated Bylaws of the Company
4.01 (3)	Form of Common Stock Certificate
10.01	Form of 2016 Supplemental Performance Shares Agreement for the Company's 2005 Equity and Performance Incentive Plan, as amended.
10.02	Form of 2016 Supplemental Non-Qualified Stock Option Agreement for the Company's 2005 Equity and Performance Incentive Plan, as amended.
10.03	Form of 2016 Performance Shares Agreement for the Company's 2005 Equity and Performance Incentive Plan, as amended.
10.04	Form of 2016 Non-Qualified Stock Option Agreement for the Company's 2005 Equity and Performance Incentive Plan, as amended.
10.05	Form of 2016 Restricted Shares Agreement for the Company's 2005 Equity and Performance Incentive Plan, as amended.
31.01	Certification of Principal Executive Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Principal Financial Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.01*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.02*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

\*

Edgar Filing: ACI WORLDWIDE, INC. - Form 10-Q

This certification is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.

- (1) Incorporated herein by reference to Exhibit 3.1 to the registrant's current report on Form 8-K filed June 24, 2013.
- (2) Incorporated herein by reference to Exhibit 3.2 to the registrant's current report on Form 8-K filed December 18, 2008.
- (3) Incorporated herein by reference to Exhibit 4.01 to the registrant's Registration Statement No. 33-88292 on Form S-1.

**Table of Contents**

**SIGNATURE**

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

**ACI WORLDWIDE, INC.**  
(Registrant)

Date: May 5, 2016

By: */s/ SCOTT W. BEHRENS*  
*Scott W. Behrens*  
*Senior Executive Vice President, Chief Financial*  
*Officer and Chief Accounting Officer*  
*(Principal Financial Officer)*

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit</b>	
<b>No.</b>	<b>Description</b>
3.01 (1)	2013 Amended and Restated Certificate of Incorporation of the Company
3.02 (2)	Amended and Restated Bylaws of the Company
4.01 (3)	Form of Common Stock Certificate
10.01	Form of 2016 Supplemental Performance Shares Agreement for the Company's 2005 Equity and Performance Incentive Plan, as amended.
10.02	Form of 2016 Supplemental Non-Qualified Stock Option Agreement for the Company's 2005 Equity and Performance Incentive Plan, as amended.
10.03	Form of 2016 Performance Shares Agreement for the Company's 2005 Equity and Performance Incentive Plan, as amended.
10.04	Form of 2016 Non-Qualified Stock Option Agreement for the Company's 2005 Equity and Performance Incentive Plan, as amended.
10.05	Form of 2016 Restricted Shares Agreement for the Company's 2005 Equity and Performance Incentive Plan, as amended.
31.01	Certification of Principal Executive Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Principal Financial Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.01*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.02*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

\*

This certification is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.

- (1) Incorporated herein by reference to Exhibit 3.1 to the registrant's current report on Form 8-K filed June 24, 2013.
- (2) Incorporated herein by reference to Exhibit 3.2 to the registrant's current report on Form 8-K filed December 18, 2008.
- (3) Incorporated herein by reference to Exhibit 4.01 to the registrant's Registration Statement No. 33-88292 on Form S-1.