

ACI WORLDWIDE, INC.  
Form 10-Q  
October 30, 2014  
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**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 September 30, 2014**

**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 October 27, 2014 there were 114,936,261 shares of the registrant's common stock outstanding.

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

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

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 60,071	\$ 95,059
Receivables, net of allowances of \$5,682 and \$4,459, respectively	217,450	203,575
Deferred income taxes, net	81,767	47,593
Recoverable income taxes	3,233	2,258
Prepaid expenses	21,141	22,549
Other current assets	26,787	65,328
<b>Total current assets</b>	<b>410,449</b>	<b>436,362</b>
Property and equipment, net	56,275	57,347
Software, net	207,683	191,468
Goodwill	816,931	669,217
Intangible assets, net	255,803	237,693
Deferred income taxes, net	28,564	48,852
Other noncurrent assets	46,316	40,912
<b>TOTAL ASSETS</b>	<b>\$ 1,822,021</b>	<b>\$ 1,681,851</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 43,718	\$ 43,658
Employee compensation	39,980	35,623
Current portion of long-term debt	83,381	47,313
Deferred revenue	141,323	122,045
Income taxes payable	3,752	1,192
Deferred income taxes, net	201	753
Other current liabilities	44,181	95,016
<b>Total current liabilities</b>	<b>356,536</b>	<b>345,600</b>
<b>Noncurrent liabilities</b>		
Deferred revenue	42,143	45,656
Long-term debt	862,906	708,070
Deferred income taxes, net	15,385	11,000
Other noncurrent liabilities	24,223	27,831

<b>Total liabilities</b>	1,301,193	1,138,157
Commitments and contingencies (Note 13)		
<b>Stockholders equity</b>		
Preferred stock; \$0.01 par value; 5,000,000 shares authorized; no shares issued and outstanding at September 30, 2014 and December 31, 2013		
Common stock; \$0.005 par value; 280,000,000 shares authorized; 139,820,388 shares issued at September 30, 2014 and December 31, 2013	698	698
Additional paid-in capital	555,202	542,697
Retained earnings	285,049	263,855
Treasury stock, at cost, 24,882,072 and 23,255,421 shares at September 30, 2014 and December 31, 2013, respectively	(290,655)	(240,241)
Accumulated other comprehensive loss	(29,466)	(23,315)
<b>Total stockholders equity</b>	<b>520,828</b>	<b>543,694</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 1,822,021</b>	<b>\$ 1,681,851</b>

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

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

(unaudited and in thousands, except per share amounts)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
<b>Revenues</b>				
License	\$ 57,653	\$ 56,236	\$ 154,732	\$ 151,306
Maintenance	63,764	60,457	188,572	176,921
Services	28,194	30,240	75,773	81,133
Hosting	100,033	67,006	306,848	172,406
<b>Total revenues</b>	249,644	213,939	725,925	581,766
<b>Operating expenses</b>				
Cost of license (1)	5,433	5,888	18,066	17,975
Cost of maintenance, services and hosting (1)	105,319	80,948	325,801	225,392
Research and development	36,321	33,642	112,653	109,182
Selling and marketing	27,078	24,098	82,994	76,710
General and administrative	25,329	24,559	75,127	75,743
Depreciation and amortization	18,295	15,249	52,383	39,696
<b>Total operating expenses</b>	217,775	184,384	667,024	544,698
<b>Operating income</b>	31,869	29,555	58,901	37,068
<b>Other income (expense)</b>				
Interest expense	(10,416)	(7,453)	(28,920)	(17,403)
Interest income	98	159	432	501
Other, net	3,614	(3,152)	(1,344)	(1,506)
<b>Total other income (expense)</b>	(6,704)	(10,446)	(29,832)	(18,408)
<b>Income before income taxes</b>	25,165	19,109	29,069	18,660
Income tax expense	9,433	5,347	7,875	5,183
<b>Net income</b>	\$ 15,732	\$ 13,762	\$ 21,194	\$ 13,477
<b>Income per common share</b>				
Basic	\$ 0.14	\$ 0.12	\$ 0.18	\$ 0.11
Diluted	\$ 0.14	\$ 0.12	\$ 0.18	\$ 0.11
Weighted average common shares outstanding				

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Basic	114,484	117,376	114,603	118,537
Diluted	116,428	119,422	116,682	120,598

(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.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Net income</b>	\$ 15,732	\$ 13,762	\$ 21,194	\$ 13,477
<b>Other comprehensive income (loss):</b>				
Foreign currency translation adjustments	(15,370)	10,421	(6,151)	(9,452)
<b>Total other comprehensive income (loss)</b>	(15,370)	10,421	(6,151)	(9,452)
<b>Comprehensive income</b>	\$ 362	\$ 24,183	\$ 15,043	\$ 4,025

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



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

(unaudited and in thousands)

	<b>For the Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 21,194	\$ 13,477
<b>Adjustments to reconcile net income to net cash flows from operating activities:</b>		
Depreciation	15,100	13,533
Amortization	48,174	36,250
Amortization of deferred debt issuance costs	4,207	4,021
Deferred income taxes	(9,637)	(5,340)
Stock-based compensation expense	13,742	11,110
Excess tax benefit of stock options exercised and vesting of restricted stock and performance shares	(10,416)	(2,564)
Other	2,006	653
<b>Changes in operating assets and liabilities, net of impact of acquisitions:</b>		
Receivables	(17,010)	25,782
Accounts payable	(6,501)	(15,029)
Accrued employee compensation	(2,682)	(5,007)
Current income taxes	9,345	6,195
Deferred revenue	15,932	5,881
Other current and noncurrent assets and liabilities	(11,471)	(2,402)
<b>Net cash flows from operating activities</b>	<b>71,983</b>	<b>86,560</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(11,755)	(11,482)
Purchases of software and distribution rights	(14,227)	(6,878)
Acquisition of businesses, net of cash acquired	(204,290)	(264,202)
Other	(1,500)	
<b>Net cash flows from investing activities</b>	<b>(231,772)</b>	<b>(282,562)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	2,042	1,532
Proceeds from exercises of stock options	11,106	9,892
Excess tax benefit of stock options exercised and vesting of restricted stock and performance shares	10,416	2,564
Repurchases of common stock	(70,000)	(80,648)
Repurchase of restricted stock and performance shares for tax withholdings	(4,975)	(5,894)
Proceeds from term portion of credit agreement	150,000	300,000

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Proceeds from issuance of senior notes		300,000
Proceeds from revolving credit facility	149,500	
Repayment of revolving credit facility	(71,000)	(188,000)
Repayment of term portion of credit agreement	(37,596)	(21,996)
Payments on other debt and capital leases	(7,912)	(13,322)
Payment for debt issuance costs	(4,544)	(16,397)
Distribution to noncontrolling interest	(1,391)	
Net cash flows from financing activities	125,646	287,731
Effect of exchange rate fluctuations on cash	(845)	(1,547)
Net increase (decrease) in cash and cash equivalents	(34,988)	90,182
Cash and cash equivalents, beginning of period	95,059	76,329
Cash and cash equivalents, end of period	\$ 60,071	\$ 166,511
Supplemental cash flow information		
Income taxes paid, net	\$ 18,952	\$ 11,499
Interest paid	\$ 28,996	\$ 11,291

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 September 30, 2014, and for the three and nine months ended September 30, 2014 and 2013, 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, 2013 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, 2013, filed on February 28, 2014. Results for the three and nine months ended September 30, 2014 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.

**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).

**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 that will be billed in future periods.

<b>(in thousands)</b>	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Billed Receivables	\$ 187,117	\$ 173,100
Allowance for doubtful accounts	(5,682)	(4,459)
<b>Billed, net</b>	<b>181,435</b>	<b>168,641</b>
Accrued Receivables	36,015	34,934

Receivables, net	\$	217,450	\$	203,575
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**Table of Contents****Other Current Assets and Other Current Liabilities**

<b>(in thousands)</b>	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Settlement deposits	\$ 2,462	\$ 27,770
Settlement receivables	6,384	20,119
Current debt issuance costs	6,424	5,276
Other	11,517	12,163
<b>Total other current assets</b>	<b>\$ 26,787</b>	<b>\$ 65,328</b>

<b>(in thousands)</b>	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Settlement payables	\$ 7,581	\$ 42,841
Accrued interest	2,518	7,074
Vendor financed licenses	6,942	6,410
Royalties payable	3,558	5,627
Other	23,582	33,064
<b>Total other current liabilities</b>	<b>\$ 44,181</b>	<b>\$ 95,016</b>

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 funds are received from the source at the same time as the funds are sent 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 are separate from the Company's corporate assets. As the Company does not take ownership of the funds, those 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 off balance sheet settlement funds as of September 30, 2014 and December 31, 2013 were \$223.5 million and \$284.0 million, respectively.

**Accumulated Other Comprehensive Loss**

The \$29.5 million and \$23.3 million accumulated other comprehensive loss included in the Company's condensed consolidated balance sheets as of September 30, 2014 and December 31, 2013, respectively, represents the accumulated foreign currency translation adjustment. Since the undistributed earnings of the Company's foreign subsidiaries are considered to be permanently reinvested, the components of accumulated other comprehensive loss have not been tax effected.

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

Changes in the carrying amount of goodwill attributable to each reporting unit during the nine months ended September 30, 2014 were as follows:

<b>(in thousands)</b>	<b>Americas</b>	<b>EMEA</b>	<b>Asia/Pacific</b>	<b>Total</b>
Gross Balance prior to December 31, 2013	\$ 488,698	\$ 160,158	\$ 67,793	\$ 716,649
Total impairment prior to December 31, 2013	(47,432)			(47,432)
Balance, December 31, 2013	441,266	160,158	67,793	669,217
Goodwill from acquisitions (1)	69,318	81,838		151,156
Foreign currency translation adjustments	(311)	(2,650)	(481)	(3,442)
Balance, September 30, 2014	\$ 510,273	\$ 239,346	\$ 67,312	\$ 816,931

- (1) Goodwill from acquisitions relates to the goodwill recorded for the acquisitions of Retail Decisions Europe Limited and Retail Decisions, Inc. (collectively ReD), as well as adjustments to goodwill related to the acquisitions of Official Payments Holdings, Inc. (OPAY), Online Resources Corporation (ORCC), and Profesionales en Transacciones Electronicas S.A. (PTESA) in prior periods as discussed in Note 3. The purchase price allocations for ReD and OPAY are preliminary as of September 30, 2014 and accordingly are 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 have identified our reportable segments, Americas, Europe/Middle East/Africa (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, 2013 annual impairment test and there have been no indications of impairment in the subsequent periods.

**Noncontrolling Interest**

On April 10, 2014, the Company dissolved its partnership based in South Africa with Cornastone Technology Investments (Proprietary) Limited (CTI). As a result, the Company paid CTI approximately \$1.5 million during the nine months ended September 30, 2014 for CTI's noncontrolling interest and loan balance. Noncontrolling interest in this partnership of \$1.1 million was included in other noncurrent liabilities as of December 31, 2013.

**Revenue**

*Vendor Specific Objective Evidence (VSOE)*

ASC 985-605 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 has traditionally established VSOE of the fair value of PCS by reference to stated renewals, expressed in dollar terms, or separate sales with consistent pricing of PCS expressed in percentage terms. In determining whether a stated renewal is not substantive, the Company 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 rate is significantly below the Company's normal pricing practices. In determining whether PCS pricing is consistent, the Company considers the population of separate sales that are within a reasonably narrow range of the median within the identified market segment over the trailing 12 month period.

Effective July 2013, the Company establishes VSOE of fair value of PCS by reference to stated renewals for all identified market segments. The Company continues to consider 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. The change in estimation methodology does not have a material effect on our financial statements.



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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 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 fees, maintenance fees and services, if applicable.

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

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
License	\$ 5,466	\$ 5,653	\$ 18,106	\$ 17,013
Maintenance	1,862	2,325	6,275	7,093
Services	34		47	3
Total	\$ 7,362	\$ 7,978	\$ 24,428	\$ 24,109

**Newly Issued Accounting Standards**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Updated ( ASU ) No. 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. This ASU is effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. 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 June 2014, FASB issued ASU No. 2014-12, *Compensation - Stock Compensation*. This ASU is an amendment to the Accounting Standard Codification 718, *Compensation - Stock Compensation*, to explicitly address the accounting treatment of share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period should be treated as a performance condition. As such, a reporting entity should apply the existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. This ASU is effective for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. The Company has assessed the impact of this standard and does not anticipate it having a material impact on its financial position, results of operations or cash flow.

**2. Stock Split**

On April 10, 2014, the Company announced that its Board of Directors approved a three-for-one stock split of the Company's common stock, which was affected in the form of a common stock dividend distributed on July 10, 2014. The Company's par value remained \$0.005 per common share, resulting in an adjustment to increase the total common stock balance with an equal and offsetting adjustment to additional paid-in capital. Stockholders' equity and all references to share and per share amounts in the accompanying condensed consolidated financial statements and applicable disclosures have been retroactively adjusted to reflect the three-for-one stock split for all periods presented.

### **3. Acquisitions**

#### **Fiscal 2014 Acquisitions**

In 2014, the Company completed one acquisition at an aggregate cost of \$205.1 million.

##### *Retail Decisions Limited*

On August 12, 2014, the Company completed the acquisition of ReD for \$205.1 million in cash. The Company has included the financial results of ReD in the condensed consolidated financial statements from the date of acquisition. As a leader in fraud prevention solutions, the acquisition of ReD enhances the Company's Universal Payments strategy and further strengthens the Company's leadership position in the fast-growing payments risk management space.

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To fund this acquisition and related transaction fees, the Company drew an additional \$60.5 million on the Revolving Credit Facility and increased the Term portion of the Credit Agreement by an additional \$150.0 million. See Note 4, *Debt*, for terms of the financing arrangement.

The Company incurred approximately \$1.8 million in transaction related expenses during the nine months ended September 30, 2014, including fees to the investment bank, legal and other professional fees, which are included in general and administrative expenses in the accompanying condensed consolidated financial statements.

ReD contributed approximately \$5.8 million in revenue and \$0.1 million in operating income for the three and nine months ended September 30, 2014, which includes severance expense related to the integration activities.

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, intangible assets, property and equipment, and certain tax matters. Accordingly, the purchase price allocation is considered preliminary and is subject to future adjustments during the maximum one-year allocation period.

In connection with the acquisitions, the Company recorded the following amounts based upon its purchase price allocation as of September 30, 2014. The purchase price allocation for ReD 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>Retail Decisions</b>
<b>Current assets:</b>		
Cash and cash equivalents		\$ 795
Billed and accrued receivables, net		10,800
Deferred income taxes, net		140
Other current assets		9,479
<b>Total current assets acquired</b>		<b>21,214</b>
<b>Noncurrent assets:</b>		
Property and equipment		2,362
Goodwill		155,597
Software	5-7 years	21,215
Customer relationships	18 years	36,260
Trademarks	5 years	3,820
Deferred income taxes		1,622
Other noncurrent assets		416
<b>Total assets acquired</b>		<b>242,506</b>
<b>Current liabilities:</b>		
Accounts payable		4,624
Employee compensation		7,582

Other current liabilities	5,842
Total current liabilities acquired	18,048
Noncurrent liabilities:	
Deferred income taxes	17,552
Other noncurrent liabilities	1,821
Total liabilities acquired	37,421
Net assets acquired	\$ 205,085

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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 ReD are not presented because they are not material.

### **Fiscal 2013 Acquisitions**

In 2013, the Company completed three acquisitions at an aggregate cost of \$378.1 million.

#### *Official Payments Holdings, Inc.*

On November 5, 2013, the Company completed the tender offer for OPAY and all its subsidiaries. The Company paid cash of \$8.35 per share of common stock or approximately \$139.8 million using funds on hand and \$40 million drawn on the Revolving Credit Facility, which was repaid prior to December 31, 2013. The Company has included the financial results of OPAY in the condensed consolidated financial statements from the date of acquisition. As a leading provider of electronic bill payment solutions in the U.S., serving federal, state and local governments, municipal utilities, higher education institutions and charitable giving organizations, OPAY's team, user base and vertical expertise made it an ideal match for the Company. The acquisition further extended the Company's presence in the Electronic Bill Presentment and Payment (EBPP) space, expanding its portfolio across key sectors including federal, state and local governments, municipal utilities, higher education institutions and charitable giving organizations.

Each outstanding option to acquire OPAY common stock was cancelled and terminated at the effective time of the acquisition and converted into the right to receive cash with respect to the number of shares of OPAY common stock that would have been issuable upon a net exercise of such option, assuming the market value of the OPAY common stock at the time of such exercise was equal to the \$8.35 per common stock tender offer. Any outstanding option with a per share exercise price that was greater than or equal to such amount was cancelled and terminated and no payment was made with respect thereto. In addition, each OPAY restricted stock unit award outstanding immediately prior to the effective time of the tender offer was fully vested and cancelled, and each holder of such awards became entitled to receive the \$8.35 per common stock tender offer for each share of OPAY common stock into which the vested portion of the awards would otherwise have been converted.

The consideration paid by the Company to complete the acquisition of OPAY 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 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, certain tax matters. Accordingly, the purchase price allocation is preliminary and is subject to future adjustments during the maximum one-year allocation period.

The Company made adjustments to the preliminary purchase price allocation as additional information became available for acquired property and equipment, certain accruals and tax account balances. These adjustments and any resulting adjustments to the statements of income 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.

#### *Online Resources Corporation*

On March 11, 2013, the Company completed the tender offer for ORCC and all its subsidiaries. The Company paid cash of \$3.85 per share of common stock for approximately \$132.9 million and \$127.2 million for the Series A-1 Convertible Preferred Stock for a total purchase price of \$260.1 million (the Merger). The Company has included the financial results of ORCC in the condensed consolidated financial statements from the date of acquisition. As a leading provider of online banking and full service bill pay solutions, the acquisition of ORCC added EBPP solutions as a strategic part of ACI's Universal Payments portfolio. It also strengthened the Company's online banking capabilities with complementary technology, and expanded the Company's leadership in serving community banking and credit union customers.

Each outstanding option to acquire ORCC common stock was cancelled and terminated at the effective time of the Merger and converted into the right to receive an equivalent number of options to purchase ACI common stock. Each ORCC restricted stock unit was vested immediately prior to the effective time of the Merger and each holder received \$3.85 per share.

The Company used funds from the \$300.0 million of Senior Notes financing arranged through Wells Fargo Securities, LLC to fund the acquisition. See Note 4, *Debt*, for terms of the financing arrangement.

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The consideration paid by the Company to complete the Merger has been allocated 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.

The Company made adjustments to finalize the purchase price allocation as additional information became available for certain accruals and deferred income taxes. These adjustments and any resulting adjustments to the statements of income 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.

*Profesionales en Transacciones Electronicas S.A.*

During the first quarter of 2013, the Company acquired 100% of Profesionales en Transacciones Electronicas S.A. Venezuela ( PTESA-V ), 100% of Profesionales en Transacciones Electronicas S.A. Ecuador ( PTESA-E ), and the ACI related assets of Profesionales en Transacciones Electronicas S.A. Colombia ( PTESA-C ), collectively PTESA. The common stock of PTESA-E and PTESA-V were acquired for \$2.8 million and the assets of PTESA-C were acquired for \$11.4 million, for a total aggregate purchase price of \$14.2 million paid in cash. The Company has included the financial results of PTESA in our condensed consolidated financial statements from the date of acquisition. PTESA had been a long-term partner of the Company, serving customers in South America in sales, service and support functions. The addition of the PTESA team to the Company reinforces its commitment to serve the Latin American market.

Factors contributing to the purchase price that resulted in the goodwill (approximately \$1.5 million of which is not tax deductible) include the acquisition of management, sales, and services personnel with the skills to market and support products of the Company in the Latin America region. Pro forma results are not presented because they are not material.

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In connection with the 2013 acquisitions, the Company recorded the following amounts based upon its purchase price allocations as of September 30, 2014. The purchase price allocation for OPAY is considered preliminary and is subject to completion of valuations and other analyses.

(in thousands, except weighted average useful lives)	Weighted-Average Useful Lives	Official Payments Holdings, In	Online Resources Incorporation	PTESA
<b>Current assets:</b>				
Cash and cash equivalents		\$ 25,871	\$ 9,930	\$ 193
Billed and accrued receivables, net		2,858	19,394	327
Deferred income taxes, net		4,034	11,726	
Other current assets		27,779	17,643	95
<b>Total current assets acquired</b>		<b>60,542</b>	<b>58,693</b>	<b>615</b>
<b>Noncurrent assets:</b>				
Property and equipment		6,340	7,335	6
Goodwill		39,301	122,247	7,113
Software	10 years	26,125	62,215	7,732
Customer relationships	14 -15 years	47,400	68,750	
Trademarks	3 - 5 years	3,000	3,050	
Other noncurrent assets		7,818	459	7
<b>Total assets acquired</b>		<b>190,526</b>	<b>322,749</b>	<b>15,473</b>
<b>Current liabilities:</b>				
Accounts payable		8,932	15,394	341
Employee compensation		15,006	10,549	261
Note payable			7,500	
Other current liabilities		25,978	7,559	
<b>Total current liabilities acquired</b>		<b>49,916</b>	<b>41,002</b>	<b>602</b>
<b>Noncurrent liabilities:</b>				
Deferred income taxes, net			18,290	225
Other noncurrent liabilities		828	3,339	439
<b>Total liabilities acquired</b>		<b>50,744</b>	<b>62,631</b>	<b>1,266</b>
<b>Net assets acquired</b>		<b>\$ 139,782</b>	<b>\$ 260,118</b>	<b>\$ 14,207</b>

OPAY and ORCC contributed approximately \$66.9 million in revenue and \$11.3 million in operating income for the three months ended September 30, 2014, which includes significant transaction related expenses related to integration activities. OPAY and ORCC contributed approximately \$214.0 million in revenue and \$25.2 million in operating income for the nine months ended September 30, 2014, which includes significant transaction related expenses related to integration activities.



ORCC contributed approximately \$36.6 million in revenue and \$2.1 million in operating income for the three months ended September 30, 2013, which includes significant transaction related expenses related to integration activities. ORCC contributed approximately \$83.8 million in revenue and \$2.6 million in operating income for the nine months ended September 30, 2013, which includes significant transaction related expenses related to integration activities.

**Table of Contents****Unaudited Pro Forma Financial Information**

The pro forma financial information in the table below presents the combined results of operations for the Company, ORCC and OPAY as if both acquisitions had occurred January 1, 2012 (in thousands, except per share data). The pro forma information is shown for illustrative purposes only and is not necessarily indicative of future results of operations of the Company or results of operations of the Company that would have actually occurred had the transactions been in effect for the periods presented. This pro forma information is not intended to represent or be indicative of actual results had the acquisition occurred as of the beginning of each period, nor is it necessarily indicative of future results and does not reflect potential synergies, integration costs, or other such costs or savings. Certain pro forma adjustments have been made to net income for the three and nine months ended September 30, 2013 to give effect to estimated adjustments to expenses to remove the amortization on eliminated OPAY and ORCC historical identifiable intangible assets and add amortization expense for the value of identified intangibles acquired in the acquisitions (primarily acquired software, customer relationships, trade names, and covenants not to compete), adjustments to interest expense to reflect the elimination of preexisting OPAY and ORCC debt and add estimated interest expense on the Company's additional Term Credit Facility borrowings and to eliminate share-based compensation expense for eliminated positions. Additionally, certain transaction expenses that are a direct result of the acquisitions have been excluded from the three and nine months ended September 30, 2013.

(in thousands, except per share data)	<b>Pro Forma Results of Operations for the three Months Ended September 30, 2013</b>	<b>Pro Forma Results of Operations for the Nine Months Ended September 30, 2013</b>
<b>Total Revenues</b>	\$ 247,046	\$ 728,510
<b>Net Income</b>	18,135	20,303
<b>Income per share</b>		
Basic	\$ 0.15	\$ 0.17
Diluted	\$ 0.15	\$ 0.17

**4. Debt**

As of September 30, 2014, the Company had \$78.5 million, \$567.8 million and \$300.0 million outstanding under our Revolving Credit Facility, Term Credit Facility and Senior Notes, respectively, with up to \$171.5 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.

*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 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 a five-year \$500 million 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.

On August 20, 2013, upon the consummation of the offering of the 6.375% Senior Notes due in 2020 (the Senior Notes), the Fourth Amendment to the Credit Agreement originally entered into on November 10, 2011, became effective. The Fourth Amendment, among other things, extended the maturity date of the loans under the credit facility to August 20, 2018, and increased the amount the Company may request for optional incremental term loans and/or increases in the revolving commitment from \$200 million to \$300 million. The Fourth Amendment did not impact the interest rate schedule previously applied to the Credit Agreement.

On August 12, 2014, the Company borrowed an additional \$150 million under the Term Credit Facility. These additional borrowings were used in connection with the ReD acquisition that was completed on August 12, 2014.

On August 12, 2014, the Fifth Amendment to the Credit Agreement became effective. The Fifth Amendment, among other things, permitted the acquisition of ReD, increased the aggregate amount of permitted intercompany indebtedness between the Company and its subsidiaries that are guarantors under the credit facility and subsidiaries of the Company that are not guarantors under the credit facility from \$75 million to \$225 million and increased the amount of unsecured indebtedness permitted under the credit facility from \$350 million to \$500 million, in each case subject to the terms of the Credit Agreement, as amended. The Fifth Amendment also amends the Collateral Agreement dated November 10, 2011 (as amended prior to August 12, 2014) among the Company, OPAY, the other grantors party thereto and Wells Fargo Bank, National Association, as administrative agent, to release the administrative agent's security interest in, and lien on, certain property of OPAY.

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In connection with the incremental borrowings under the Term Credit Facility and the Fifth Amendment, the Company incurred debt issuance costs of \$4.5 million, of which \$4.4 million were paid as of September 30, 2014.

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 September 30, 2014 for the Credit Facility was 2.41%.

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.

*Senior Notes*

On August 20, 2013, the Company completed a \$300 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.

Maturities on long-term debt outstanding at September 30, 2014 are as follows:

<b>Fiscal year ending December 31, (in thousands)</b>	
2014	\$ 19,853
2015	87,352
2016	95,293
2017	95,293
2018	348,496
Thereafter	300,000
<b>Total</b>	<b>\$ 946,287</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 will not amortize and the Term Credit Facility will 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.

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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 September 30, 2014, and at all times during the period, the Company was in compliance with its financial debt covenants.

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 fair value of our Senior Notes approximates the carrying value at September 30, 2014 based upon prevailing interest rates and the Company's credit rating (Level 2 of the fair value hierarchy).

<b>(in thousands)</b>	<b>As of September 30, 2014</b>	<b>As of December 31, 2013</b>
Term credit facility	\$ 567,787	\$ 455,383
Revolving credit facility	78,500	
6.375% Senior Notes, due August 2020	300,000	300,000
Total debt	946,287	755,383
Less current portion of term credit facility	83,381	47,313
Total long-term debt	\$ 862,906	\$ 708,070

**5. 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 nine months ended September 30, 2014 and 2013 totaled 109,825 and 96,198, respectively.

*Stock-Based Payments*

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

<b>Number of Shares</b>	<b>Weighted- Average Exercise</b>	<b>Weighted- Average Remaining</b>	<b>Aggregate Intrinsic Value of In-the-Money</b>
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		<b>Price</b>	<b>Contractual</b>	<b>Options</b>
			<b>Term (Years)</b>	
Outstanding as of December 31, 2013	7,408,821	\$ 11.02		
Granted	27,132	20.13		
Exercised	(1,371,369)	8.09		
Forfeited or expired	(95,886)	17.30		
<b>Outstanding as of September 30, 2014</b>	<b>5,968,698</b>	<b>\$ 11.64</b>	<b>5.47</b>	<b>\$ 44,151,829</b>
Exercisable as of September 30, 2014	4,208,882	\$ 9.39	4.16	\$ 39,428,761

As of September 30, 2014, the Company expects that 93.5% of the options will vest over the vesting period.

The weighted-average grant date fair value of stock options granted during the nine months ended September 30, 2014 and 2013 was \$9.02 and \$8.02, respectively. The Company issued treasury shares for the exercise of stock options during the nine months ended September 30, 2014 and 2013. The total intrinsic value of stock options exercised during the nine months ended September 30, 2014 and 2013 was \$15.3 million and \$10.4 million, respectively.

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The fair value of options granted during the nine months ended September 30, 2014 and the three and nine months ended September 30, 2013 was 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>Nine Months Ended September 30, 2014</b>	<b>Three Months Ended September 30, 2013</b>	<b>Nine Months Ended September 30, 2013</b>
Expected life (years)	5.93	5.55	8.64
Interest rate	1.8%	1.7%	1.8%
Volatility	45.2%	47.1%	47.6%
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.

*Stock Incentive Plan – ORCC Corporation Stock Incentive Plan, as amended and restated*

In relation to the acquisition of ORCC discussed in Note 3, the Company amended the ORCC Stock Incentive Plan, as previously amended and restated (the "ORCC Incentive Plan"). Stock options were granted to ORCC employees by ORCC prior to acquisition by the Company under the ORCC Incentive Plan. Outstanding ORCC options were converted into options for the Company's stock in accordance with the terms of the Transaction Agreement. These are the only equity awards currently outstanding under the ORCC Incentive Plan and no further grants will be made.

A summary of transaction stock options issued pursuant to the ORCC Incentive Plan 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, 2013	62,445	\$ 35.03		
Exercised	(909)	13.92		
Forfeited or Expired	(13,425)	30.59		
Outstanding as of September 30, 2014	48,111	\$ 36.67	1.81	\$ 33,643
Exercisable as of September 30, 2014	48,111	\$ 36.67	1.81	\$ 33,643





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A summary of nonvested long-term incentive program performance share awards ( LTIP performance shares ) outstanding as of September 30, 2014 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, 2013	2,718,576	\$ 13.79
Granted	19,065	20.13
Forfeited	(91,265)	15.91
Vested	(635,643)	8.88
Change in attainment for 2010 grants	26,226	8.88
Nonvested as of September 30, 2014	2,036,959	\$ 15.22

During the nine months ended September 30, 2014, 635,643 shares of the LTIPs vested. The Company withheld 228,279 of those shares to pay the employees' portion of the minimum payroll withholding taxes.

A summary of nonvested restricted share awards ( RSAs ) as of September 30, 2014 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, 2013	145,065	\$ 14.91
Granted	106,275	18.57
Vested	(60,916)	14.92
Forfeited	(1,461)	20.51
Nonvested as of September 30, 2014	188,963	\$ 16.92

During the nine months ended September 30, 2014, 60,916 RSAs vested. The Company withheld 24,583 of those shares to pay the employees' portion of the minimum payroll withholding taxes.

*Stock Incentive Plan S1 Corporation 2003 Stock Incentive Plan, as amended and restated*

In relation to the acquisition of S1 Corporation ( S1 ) in 2012, the Company amended the S1 Corporation 2003 Stock Incentive Plan, as previously amended and restated (the S1 2003 Incentive Plan ). RSAs were granted to S1 employees by S1 Corporation prior to the acquisition by the Company in accordance with the terms of the Transaction Agreement ( Transaction RSAs ) under the S1 2003 Incentive Plan. These are the only equity awards currently outstanding under the S1 2003 Incentive Plan and no further grants will be made.

Under the terms of the Transaction Agreement with S1, upon the acquisition, the Transaction RSAs were converted to RSAs of the Company's stock. These awards have requisite service periods of four years and vest in increments of 25% on the anniversary of the original grant date of November 9, 2011. If an employee was terminated without cause within 12 months from the acquisition date, the RSAs 100% vested. Stock is issued without direct cost to the employee. The 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 conversion of the Transaction RSAs was treated as a modification and as such, they were valued immediately prior to and after modification. The Company recognizes compensation expense for RSAs on a straight-line basis over the requisite service period. The incremental fair value as measured upon modification is recognized on a straight-line basis from modification date through the end of the requisite service period.

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A summary of nonvested Transaction RSAs issued under the S1 2003 Stock Incentive Plan as of September 30, 2014 and changes during the period are as follows:

<b>Nonvested Transaction Restricted Share Awards</b>	<b>Number of Restricted Share Awards</b>	<b>Weighted-Average Grant Date Fair Value</b>
Nonvested as of December 31, 2013	57,552	\$ 11.80
Forfeited	(17,924)	11.80
Nonvested as of September 30, 2014	39,628	\$ 11.80

As of September 30, 2014, there were unrecognized compensation costs of \$8.2 million related to nonvested stock options, \$2.7 million related to the nonvested RSAs, and \$14.2 million related to the LTIP performance shares, which the Company expects to recognize over weighted-average periods of 1.9 years, 1.1 years and 1.9 years, respectively.

The Company recorded stock-based compensation expenses for the three months ended September 30, 2014 and 2013 related to stock options, LTIP performance shares, RSAs, and the ESPP of \$4.6 million and \$3.4 million, respectively, with corresponding tax benefits of \$1.7 million and \$1.3 million, respectively. The Company recorded stock-based compensation expenses for the nine months ended September 30, 2014 and 2013 related to stock options, LTIP performance shares, RSAs, and the ESPP of \$13.7 million and \$11.1 million, respectively, with corresponding tax benefits of \$5.2 million and \$4.2 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.

Cash received from option exercises for the nine months ended September 30, 2014 and 2013 was \$11.1 million and \$9.9 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$5.8 million and \$3.9 million for the nine months ended September 30, 2014 and 2013, respectively.

## 6. Software and Other Intangible Assets

At September 30, 2014, software net book value totaling \$207.7 million, net of \$119.9 million of accumulated amortization, includes the net book value of software marketed for external sale of \$88.8 million. The remaining software net book value of \$118.9 million is comprised of various software that has been acquired or developed for internal use.

At December 31, 2013, software net book value totaled \$191.5 million, net of \$95.3 million of accumulated amortization. Included in this amount is software marketed for external sale of \$94.0 million. The remaining software net book value of \$97.5 million is comprised of various software that has been acquired or developed for internal use.

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 September 30, 2014 and 2013 totaled \$3.8 million and \$3.4 million, respectively. These software amortization expense amounts are reflected in cost of software license fees in the condensed consolidated statements of income.

Software for resale amortization expense recorded in the nine months ended September 30, 2014 and 2013 totaled \$10.9 million and \$10.1 million, respectively. These software amortization expense amounts are reflected in cost of software license fees in the condensed consolidated statements of income.

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 \$7.7 million and \$5.0 million for the three months ended September 30, 2014 and 2013, respectively, is included in depreciation and amortization in the condensed consolidated statements of income. Amortization of software for internal use of \$18.9 million and \$12.8 million for the nine months ended September 30, 2014 and 2013, respectively, is included in depreciation and amortization in the condensed consolidated statements of income.

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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)	September 30, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance
Customer relationships	\$ 311,438	\$ (64,368)	\$ 247,070	\$ 277,356	\$ (49,410)	\$ 227,946
Trademarks and tradenames	15,671	(6,983)	8,688	13,995	(4,383)	9,612
Purchased Contracts	10,835	(10,835)		10,865	(10,865)	
Covenant not to compete	438	(393)	45	438	(303)	135
	\$ 338,382	\$ (82,579)	\$ 255,803	\$ 302,654	\$ (64,961)	\$ 237,693

Other intangible assets amortization expense for the three months ended September 30, 2014 and 2013 totaled \$6.1 million and \$4.7 million, respectively. Other intangible assets amortization expense for the nine months ended September 30, 2014 and 2013 totaled \$18.4 million and \$13.3 million, respectively.

Based on capitalized software and other intangible assets at September 30, 2014, estimated amortization expense for future fiscal years is as follows:

<b><u>Fiscal Year Ending December 31,</u></b> <b>(in thousands)</b>	<b>Software Amortization</b>	<b>Other Intangible Assets Amortization</b>
Remainder of 2014	\$ 11,335	\$ 5,960
2015	41,240	22,236
2016	36,133	21,099
2017	29,618	19,594
2018	24,134	19,084
2019	20,445	18,482
Thereafter	44,778	149,348
Total	\$ 207,683	\$ 255,803

**7. Corporate Restructuring and Other Organizational Changes***2014 Activities**Employee Actions*

During the nine months ended September 30, 2014, the Company reduced its headcount as a part of its integration of recent acquisitions. In connection with these actions, approximately \$3.2 million and \$6.0 million of termination costs

were recognized in general and administrative expense in the accompanying condensed consolidated statements of income during the three and nine months ended September 30, 2014, respectively. The charges by segment were as follows for the three months ended September 30, 2014: \$1.7 million in the Americas segment, \$0.5 million in the Asia/Pacific segment, and \$1.0 million in the EMEA segment. The charges by segment were as follows for the nine months ended September 30, 2014: \$3.8 million in the Americas segment, \$1.0 million in the Asia/Pacific segment, and \$1.2 million in the EMEA segment. Approximately \$6.3 million of termination costs were paid during the nine months ended September 30, 2014. The remaining liability is expected to be paid over the next 12 months.

**Table of Contents***2013 Activities**Employee Actions*

During the three and nine months ended September 30, 2013, the Company reduced its headcount as a part of its integration of recent acquisitions. In connection with these actions, approximately \$4.8 million and \$8.5 million of termination costs were recognized in general and administrative expense in the accompanying condensed consolidated statements of income during the three and nine months ended September 30, 2013, respectively. The charges for the three and nine months ended September 30, 2013 were \$1.6 million and \$1.9 million in the EMEA segment, respectively, and \$0.1 million and \$0.4 million in the Asia/Pacific segment, respectively. The remaining expense of \$3.1 million and \$6.2 million was incurred in the Americas segment for the three and nine months ended September 30, 2013, respectively.

*Lease Cease Use Actions*

During the three months ended September 30, 2013, the Company ceased use of all or a portion of its leased facilities in North Brunswick, NJ, Columbus, OH, Duluth, GA, and Bangalore, India, which resulted in additional expense of \$0.8 million that was recorded in general and administrative expenses in the accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2013.

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

<b>(in thousands)</b>	<b>Severance</b>	<b>Facility Closures</b>	<b>Total</b>
Balance, December 31, 2013	\$ 1,470	\$ 1,871	\$ 3,341
Restructuring charges (adjustments) incurred, net	5,993	(137)	5,856
Amounts paid during the period	(6,285)	(1,237)	(7,522)
Foreign currency translation	(43)		(43)
<b>Balance, September 30, 2014</b>	<b>\$ 1,135</b>	<b>\$ 497</b>	<b>\$ 1,632</b>

The \$1.1 million for unpaid severance is included in employee compensation and the \$0.5 million for unpaid facility closures is included in other current liabilities in the accompanying condensed consolidated balance sheet at September 30, 2014.

**8. 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 approved an additional \$100 million for the stock repurchase program.

The Company repurchased 3,578,427 shares for \$70.0 million under the program during the nine months ended September 30, 2014. Under the program to date, the Company has repurchased 37,108,467 shares for approximately \$395.8 million. The maximum remaining authorized for purchase under the stock repurchase program was approximately \$138.3 million as of September 30, 2014.

## **9. Earnings Per Share**

Basic earnings per share is computed on the basis of weighted average outstanding common shares. Diluted earnings 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.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Weighted average shares outstanding:</b>				
Basic weighted average shares outstanding	114,484	117,376	114,603	118,537
Add: Dilutive effect of stock options and restricted stock awards	1,944	2,046	2,079	2,061
Diluted weighted average shares outstanding	116,428	119,422	116,682	120,598

The diluted earnings per share computation excludes 3.1 million and 3.2 million options to purchase shares, restricted share awards, and contingently issuable shares during the three and nine months ended September 30, 2014, respectively, as their effect would be anti-dilutive. The diluted earnings per share computation excludes 4.9 million options to purchase shares, restricted share awards, and contingently issuable shares during the three and nine months ended September 30, 2013 as their effect would be anti-dilutive.

Common stock outstanding as of September 30, 2014 and December 31, 2013 was 114,938,316 and 116,564,967, respectively.

**10. Other, net**

Other, net is comprised of the following items:

<b>(in thousands)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Foreign currency transaction gains (losses)	\$ 3,550	\$ (2,913)	\$ (1,219)	\$ (785)
Other	64	(239)	(125)	(721)
<b>Total</b>	<b>\$ 3,614</b>	<b>\$ (3,152)</b>	<b>\$ (1,344)</b>	<b>\$ (1,506)</b>

**11. 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.

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The following is selected segment financial data for the periods indicated:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
<b>Revenues:</b>				
Americas	\$ 172,918	\$ 136,812	\$ 505,432	\$ 369,504
EMEA	56,793	51,692	161,604	145,982
Asia/Pacific	19,933	25,435	58,889	66,280
	\$ 249,644	\$ 213,939	\$ 725,925	\$ 581,766
<b>Income before income taxes:</b>				
Americas	\$ 37,746	\$ 36,320	\$ 80,779	\$ 79,612
EMEA	30,186	14,968	72,526	43,176
Asia/Pacific	9,048	10,641	25,130	19,828
Corporate	(51,815)	(42,820)	(149,366)	(123,956)
	\$ 25,165	\$ 19,109	\$ 29,069	\$ 18,660

(in thousands)	September 30,	December 31,
	2014	2013
<b>Total assets:</b>		
Americas - United States	\$ 1,177,766	\$ 1,129,064
Americas - Other	39,020	39,995
EMEA	484,000	380,320
Asia/Pacific	121,235	132,472
	\$ 1,822,021	\$ 1,681,851

No single customer accounted for more than 10% of the Company's consolidated revenues during the three and nine months ended September 30, 2014 and 2013. No other country outside the United States accounted for more than 10% of the Company's consolidated revenues during the three and nine months ended September 30, 2014 and 2013.

**12. Income Taxes**

The effective tax rate for the three months ended September 30, 2014 and September 30, 2013 was 37.5% and 28.0%, respectively. The earnings of the Company's foreign entities for the three months ended September 30, 2014 and September 30, 2013 were \$7.3 million and \$7.4 million, respectively. 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 September 30, 2014 was positively impacted by profits in certain foreign jurisdictions taxed at lower rates and negatively impacted by domestic profits taxed at higher rates and by losses in other foreign jurisdictions taxed at lower rates. The effective tax rate for the three months ended September 30, 2013 was positively impacted by foreign profits taxed at lower rates. The effective tax rate for the three months ended September 30, 2013 was negatively

impacted by acquisition related expenses that are not deductible for tax purposes.

The effective tax rate for the nine months ended September 30, 2014 and September 30, 2013 was 27.1% and 27.8%, respectively. The earnings of the Company's foreign entities for the nine months ended September 30, 2014 and September 30, 2013 were \$31.6 million and \$18.9 million, respectively. 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 nine months ended September 30, 2014 was positively impacted by profits in certain foreign jurisdictions taxed at lower rates and domestic losses taxed at higher rates, partially offset by losses in other foreign jurisdictions taxed at lower rates. The effective tax rate for the nine months ended September 30, 2013 was positively impacted by foreign profits taxed at lower rates and a domestic loss taxed at a higher rate as well as recognition of \$1.4 million tax benefit as a result of implementing the 2012 American Taxpayer Relief Act. The effective tax rate for the nine months ended September 30, 2013 was negatively impacted by acquisition related expenses that are not deductible for tax purposes as well as an increase in the valuation allowance against foreign tax credits as a result of the acquisition of ORCC.

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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 \$16.2 million as of September 30, 2014 and \$15.0 million as of December 31, 2013, excluding related liabilities for interest and penalties of \$2.3 million as of September 30, 2014 and December 31, 2013.

The Company believes it is reasonably possible that the total amount of unrecognized tax benefits will decrease within the next 12 months by approximately \$4.5 million, due to the settlement of various audits and the expiration of statutes of limitation.

### **13. Commitments and Contingencies**

#### *Legal Proceedings*

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company is not currently a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, the Company believes would be likely to have a material effect on the Company's financial condition, results of operations or cash flows.

#### *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 September 30, 2014.

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**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. The 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 product, BASE24-eps;

demand for our products;

restrictions and other financial covenants in our credit facility;

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;

risks from potential future litigation;

future acquisitions, strategic partnerships and investments and litigation;

risk of difficulties integrating Online Resources Corporation ( ORCC ), Official Payments Holdings, Inc. ( OPAY ) and Retail Decisions Europe Limited and Retail Decisions, Inc.(collectively ReD ), which may cause us to fail to realize anticipated benefits of the acquisitions;

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

risks of 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;

risks of being subject to security breaches or viruses;

the protection of our intellectual property in intellectual property litigation;

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;

risks from 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.

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, 2013, filed February 28, 2014. Results for the three and nine months ended September 30, 2014, are not necessarily indicative of results that may be attained in the future.

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### Overview

ACI Worldwide powers electronic payments and banking for nearly 2,600 financial institutions, retailers and processors around the world. Through our comprehensive suite of software products and hosted services, we deliver a broad range of solutions for payment processing; card and merchant management; online banking; mobile, branch and voice banking; fraud detection; trade finance; and electronic bill presentment and payment.

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, ACI Payment Systems, ACI Universal Payments and Official Payments brands.

We derive a significant amount of our revenues from international 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 and Pune and Bangalore in 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. In February 2011 Boston Consulting Group predicted that noncash payment transactions would grow in volume at an annual rate of 9% from 309 billion in 2010 to 740 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 delivery.** 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 Singapore 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, billers and electronic payment processors are seeking to transition their systems to make use of cloud technology. Our ACI On Demand SaaS hosting service addresses this market need.

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**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. In addition, several high-profile data breaches at major retailers further heightened visibility and awareness of payments fraud and risk-related issues. 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, most recently 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 electronic 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. We are working with many customers around the world to facilitate EMV deployments, leveraging several of our solutions.

**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. Deadlines for 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.

**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 the recent global economic crisis and the financial crisis 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 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 a 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 Universal Payments 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. Our customers have been making use of existing products to deploy mobile banking, mobile payment, mobile commerce and mobile payment 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.

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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. 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 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.

**Restructuring**

During the nine months ended September 30, 2014, we reduced our headcount as a part of our integration of recent acquisitions. In connection with these actions, approximately \$3.2 million and \$6.0 million of termination costs were recognized in general and administrative expense in the accompanying condensed consolidated statements of income during the three and nine months ended September 30, 2014, respectively. The charges by segment were as follows for the three months ended September 30, 2014: \$1.7 million in the Americas segment, \$0.5 million in the Asia/Pacific segment, and \$1.0 million in the EMEA segment. The charges by segment were as follows for the nine months ended September 30, 2014: \$3.8 million in the Americas segment, \$1.0 million in the Asia/Pacific segment, and \$1.2 million in the EMEA segment. Approximately \$6.3 million of termination costs were paid during the nine months ended September 30, 2014. The remaining liability is expected to be paid over the next 12 months.

**Fiscal 2014 Acquisitions**

On August 12, 2014, we completed our acquisition of ReD for \$205.1 million in cash. We have included the financial results of ReD in our condensed consolidated financial statements from the date of acquisition. As a leader in fraud prevention solutions, the acquisition of ReD enhances our Universal Payments strategy and further strengthens our leadership position in the fast-growing payments risk management space.

## **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.

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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 September 30, 2014, June 30, 2014, March 31, 2014 and December 31, 2013 (in millions). The September 30, 2014 60-month backlog estimate includes approximately \$205 million as a result of the acquisition of ReD. Dollar amounts reflect foreign currency exchange rates as of each period end.

	<b>September 30, 2014</b>	<b>June 30, 2014</b>	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Americas	\$ 3,000	\$ 2,874	\$ 2,858	\$ 2,831
EMEA	826	765	767	747
Asia/Pacific	288	285	285	283
Total	\$ 4,114	\$ 3,924	\$ 3,910	\$ 3,861

	<b>September 30, 2014</b>	<b>June 30, 2014</b>	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Committed	\$ 1,660	\$ 1,637	\$ 1,629	\$ 1,742
Renewal	2,454	2,287	2,281	2,119
Total	\$ 4,114	\$ 3,924	\$ 3,910	\$ 3,861

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 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 region, as of September 30, 2014, June 30, 2014, March 31, 2014 and December 31, 2013 (in millions). The September 30, 2014 12-month backlog estimate includes approximately \$42 million as a result of the acquisition of ReD. For all periods reported, approximately 90% of our 12-month backlog estimate is committed backlog and approximately 10% of our 12-month backlog estimate is renewal backlog. Dollar amounts reflect currency exchange rates as of each period end.

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	September 30, 2014			June 30, 2014		
	Monthly		Total	Monthly		Total
	Recurring	Non-Recurring		Recurring	Non-Recurring	
Americas	\$ 593	\$ 58	\$ 651	\$ 569	\$ 71	\$ 640
EMEA	143	36	179	131	43	174
Asia/Pacific	54	14	68	51	20	71
Total	\$ 790	\$ 108	\$ 898	\$ 751	\$ 134	\$ 885

	March 31, 2014			December 31, 2013		
	Monthly		Total	Monthly		Total
	Recurring	Non-Recurring		Recurring	Non-Recurring	
Americas	\$ 574	\$ 64	\$ 638	\$ 571	\$ 63	\$ 634
EMEA	127	50	177	130	38	168
Asia/Pacific	52	16	68	53	15	68
Total	\$ 753	\$ 130	\$ 883	\$ 754	\$ 116	\$ 870

Estimates of future financial results are inherently unreliable. Our backlog estimates 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 income as well as the percentage relationship to total revenues of items included in our condensed consolidated statements of income (amounts in thousands):

**Three-Month Period Ended September 30, 2014 Compared to the Three-Month Period Ended September 30, 2013****Revenues**

	2014		% Change vs 2013	2013	
	Amount	% of Total Revenue		Amount	% of Total Revenue
			\$		
			Change vs 2013		

Revenues:						
Initial license fees (ILFs)	\$ 35,841	14.4%	\$ 1,697	5.0%	\$ 34,144	16.0%
Monthly license fees (MLFs)	21,812	8.7%	(280)	-1.3%	22,092	10.3%
License	57,653	23.1%	1,417	2.5%	56,236	26.3%
Maintenance	63,764	25.5%	3,307	5.5%	60,457	28.3%
Services	28,194	11.3%	(2,046)	-6.8%	30,240	14.1%
Hosting	100,033	40.1%	33,027	49.3%	67,006	31.3%
Total revenues	\$ 249,644	100.0%	\$ 35,705	16.7%	\$ 213,939	100.0%

Total revenue for the three months ended September 30, 2014 increased \$35.7 million, or 17%, as compared to the same period in 2013. The increase is the result of a \$33.0 million, or 49%, increase in hosting revenue, a \$3.3 million, or 6%, increase in maintenance revenue and a \$1.4 million, or 3% increase in license revenue partially offset by a \$2.0 million, or 7%, decrease in services revenue.

The increase in total revenue for the three months ended September 30, 2014 as compared to the same period in 2013 was due to a \$36.1 million, or 26%, increase in the Americas reportable segment and a \$5.1 million, or 10%, increase in the EMEA reportable segment partially offset by a \$5.5 million, or 22%, decrease in the Asia/Pacific reportable segment.

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The addition of OPAY and ReD contributed \$34.6 million, or 16%, of the increase in total revenue for the three months ended September 30, 2014. Excluding the impact of the incremental revenue from the addition of OPAY and ReD, total revenue for the three months ended September 30, 2014 increased \$1.1 million.

*License Revenue*

Customers purchase the right to license ACI software for the term of their agreement which term is generally 60 months. Within these agreements are specified capacity limits typically based on customer transaction volumes. 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 increased by \$1.7 million, or 5%, during the three months ended September 30, 2014, as compared to the same period in 2013. Initial license revenue increased in the Americas and EMEA reportable segments by \$1.7 million each, partially offset by a decrease in the Asia/Pacific reportable segment of \$1.7 million. The increase in initial license revenue was partially offset by a decline in capacity related revenues of \$0.5 million primarily in the Asia/Pacific reportable segment during the three months ended September 30, 2014 as compared to the same period in 2013. The increase in initial license revenue is primarily due to an increase in sales while the decrease in capacity related revenues is primarily due to the timing and relative size of capacity events as compared to the same period in 2013.

*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 \$0.3 million, or 1%, during the three months ended September 30, 2014, as compared to the same period in 2013 with the EMEA and Asia/Pacific reportable segments decreasing by \$0.5 million and \$0.7 million, respectively, partially offset by an increase in the Americas reportable segment of \$0.9 million.

*Maintenance Revenue*

Maintenance revenue includes standard and enhanced maintenance or any post contract support fees received from customers for the provision of product support services. Maintenance revenue during the three months ended September 30, 2014, as compared to the same period in 2013 increased \$3.3 million, or 6%. Maintenance revenue increased in the Americas, EMEA and Asia/Pacific reportable segments by \$1.8 million, \$1.2 million and \$0.3 million, respectively. Increases in maintenance revenue are primarily driven by increases in our customer installation base, expanded product usage from existing customers, and increased adoption of our enhanced support services programs.

*Services Revenue*

Services revenue includes fees earned through implementation services, professional services and facilities management services. Implementation services include product installations, product configurations, and retrofit 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 September 30, 2014 as compared to the same period in 2013 decreased by \$2.0 million, or 7%. Implementation and professional services decreased in the Asia/Pacific reportable segment by \$3.4 million, partially offset by increases in the Americas and EMEA reportable segments of \$0.6 million and \$0.8 million, respectively.

#### *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 2014, hosting revenue also includes fees paid by our clients as a part of the acquired EBPP 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.

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Hosting revenue during the three months ended September 30, 2014 as compared to the same period in 2013 increased \$33.0 million, or 49%, primarily due to the addition of OPAY and ReD.

**Operating Expenses**

	2014			2013		
	Amount	% of Total Revenue	\$ Change vs 2013	% Change vs 2013	Amount	% of Total Revenue
Operating expenses:						
Cost of license	\$ 5,433	2.2%	\$ (455)	-7.7%	\$ 5,888	2.8%
Cost of maintenance, services and hosting	105,319	42.2%	24,371	30.1%	80,948	37.8%
Research and development	36,321	14.5%	2,679	8.0%	33,642	15.7%
Selling and marketing	27,078	10.8%	2,980	12.4%	24,098	11.3%
General and administrative	25,329	10.1%	770	3.1%	24,559	11.5%
Depreciation and amortization	18,295	7.3%	3,046	20.0%	15,249	7.1%
Total operating expenses	\$ 217,775	87.2%	\$ 33,391	18.1%	\$ 184,384	86.2%

Total operating expenses for the three months ended September 30, 2014 increased \$33.4 million, or 18%, as compared to the same period of 2013. Included in operating expenses for the three months ended September 30, 2014 were approximately \$30.5 million of incremental operating expenses related to the added operations of ORCC, OPAY and ReD. There were approximately \$7.3 million and \$8.7 million of significant transaction related expenses incurred in the three months ended September 30, 2014, and September 30, 2013, respectively. Significant transaction related expenses for the three months ended September 30, 2014 included \$3.3 million of personnel related charges and \$4.0 million of professional and other expenses related to the acquisition of OPAY and ReD. Excluding these expenses, total operating expenses increased \$4.3 million in the three months ended September 30, 2014 compared to the same period in 2013 primarily due to a \$2.0 million increase in our professional and promotion 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 decreased \$0.5 million, or 8%, in the three months ended September 30, 2014 compared to the same period in 2013 primarily due to a decrease in third party royalty fees.

*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 \$24.4 million, or 30%, in the three months ended September 30, 2014 compared to the same period in 2013. There were \$21.6 million of incremental expenses related to the added operations of ORCC, OPAY and ReD in the three months ended September 30, 2014. Excluding these expenses, the cost of maintenance, services and hosting increased \$2.8 million compared to the same period in 2013 due to an increase in third party contractor expenses.

#### *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.

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Research and development expense increased \$2.7 million, or 8%, in the three months ended September 30, 2014 compared to the same period in 2013 primarily the result of \$2.4 million of incremental expenses related to the added operations of ORCC, OPAY, and ReD in the quarter ended September 30, 2014.

*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 \$3.0 million, or 12%, in the three months ended September 30, 2014 compared to the same period in 2013. There were \$1.6 million of incremental expenses related to the added operations of ORCC, OPAY and ReD in the quarter ended September 30, 2014. Excluding these expenses, total operating expenses increased \$1.4 million in the three months ended September 30, 2014 compared to the same period in 2013 primarily due to an increase in personnel 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 \$0.8 million, or 3%, in the three months ended September 30, 2014. Included in general and administrative expenses for the three months ended September 30, 2014 were approximately \$2.2 million of incremental expenses related to the added operations of ORCC, OPAY, and ReD. There were approximately \$6.5 million and \$8.7 million of significant transaction related expenses incurred in the three months ended September 30, 2014, and September 30, 2013, respectively. Excluding these items, total general and administrative expenses increased \$0.8 million in the three months ended September 30, 2014 compared to the same period in the prior year primarily due to an increase in bad debt allowances partially offset by lower personnel related expenses.

*Depreciation and Amortization*

Depreciation and amortization expense increased \$3.0 million, or 20%, in the three months ended September 30, 2014 compared to the same period in 2013 primarily due to acquisition related intangibles.

**Other Income and Expense****2014****2013**



	<b>Amount</b>	<b>% of Total Revenue</b>	<b>\$ Change vs 2013</b>	<b>% Change vs 2013</b>	<b>Amount</b>	<b>% of Total Revenue</b>
<b>Other income (expense):</b>						
Interest expense	\$ (10,416)	-4.2%	\$ (2,963)	39.8%	\$ (7,453)	-3.5%
Interest income	98	0.0%	(61)	-38.4%	159	0.1%
Other, net	3,614	1.4%	6,766	-214.7%	(3,152)	-1.5%
<b>Total other income (expense)</b>	<b>\$ (6,704)</b>	<b>-2.7%</b>	<b>\$ 3,742</b>	<b>-35.8%</b>	<b>\$ (10,446)</b>	<b>-4.9%</b>

Interest expense for the three months ended September 30, 2014 increased \$3.0 million, or 40%, as compared to the same period in 2013 due to the increase in debt obtained in 2014. Interest income for the three months ended September 30, 2014 was flat as compared to the same period in 2013.

Other, net consists of foreign currency gains (losses) and other non-operating items. We realized foreign currency gains of \$3.6 million for the three months ended September 30, 2014 and foreign currency losses of \$2.9 million during the same period in 2013.

**Table of Contents****Income Taxes**

	2014			2013		
	Amount	% of Total Revenue	\$ Change vs 2013	% Change vs 2013	Amount	% of Total Revenue
Income tax expense	\$ 9,433	3.8%	\$ 4,086	76.4%	\$ 5,347	2.5%
Effective Income tax rate	37.5%		28.0%			

The effective tax rate for the three months ended September 30, 2014 was 37.5%. The earnings of our foreign entities for the three months ended September 30, 2014 were \$7.3 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 September 30, 2014 was positively impacted by profits in certain foreign jurisdictions taxed at lower rates and negatively impacted by domestic profits taxed at a higher rate and by losses in other foreign jurisdictions taxed at lower rates.

The effective tax rate for the three months ended September 30, 2013 was 28.0%. The earnings of our foreign entities for the three months ended September 30, 2013 were \$7.4 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 September 30, 2013 was positively impacted by foreign profits taxed at lower rates. The effective tax rate for the three months ended September 30, 2013 was negatively impacted by acquisition related expenses that are not deductible for tax purposes.

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 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.

**Nine-Month Period Ended September 30, 2014 Compared to the Nine-Month Period Ended September 30, 2013****Revenues**

	2014			2013		
	Amount	% of Total Revenue	\$ Change vs 2013	% Change vs 2013	Amount	% of Total Revenue
Revenues:						
Initial license fees (ILFs)	\$ 85,851	11.8%	\$ 2,506	3.0%	\$ 83,345	14.3%
Monthly license fees (MLFs)	68,881	9.5%	920	1.4%	67,961	11.7%
License	154,732	21.3%	3,426	2.3%	151,306	26.0%
Maintenance	188,572	26.0%	11,651	6.6%	176,921	30.4%
Services	75,773	10.4%	(5,360)	-6.6%	81,133	13.9%

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Hosting	306,848	42.3%	134,442	78.0%	172,406	29.6%
Total revenues	\$ 725,925	100.0%	\$ 144,159	24.8%	\$ 581,766	100.0%

Total revenue for the nine months ended September 30, 2014 increased \$144.2 million, or 25%, as compared to the same period in 2013. The increase is the result of a \$134.4 million, or 78%, increase in hosting revenue, an \$11.7 million, or 7%, increase in maintenance revenue, and a \$3.4 million, or 2%, increase in license revenue partially offset by a \$5.4 million, or 7%, decrease in services revenue.

The increase in total revenue for the nine months ended September 30, 2014 as compared to the same period in 2013 was due to a \$135.9 million, or 37%, increase in the Americas reportable segment and a \$15.6 million, or 11%, increase in the EMEA reportable segment partially offset by a \$7.4 million, or 11%, decrease in the Asia/Pacific reportable segment.

ORCC contributed an incremental \$28.5 million, or 5%, of the increase in total revenue for the nine months ended September 30, 2014 compared to the same period in 2013. The addition of OPAY and ReD contributed \$107.5 million, or 18%, of the increase in total revenue for the nine months ended September 30, 2014. Excluding the impact of the incremental revenue from ORCC and addition of OPAY and ReD revenues, total revenue for the nine months ended September 30, 2014 increased \$8.2 million, or 1%. The increase in total revenue, excluding the addition of ORCC, OPAY and ReD, is primarily due to an increase in maintenance fee revenue, partially offset by a decrease in services revenue, recognized during the nine months ended September 30, 2014 as compared to the same period in 2013.

**Table of Contents***Initial License Revenue*

Initial license revenue increased by \$2.5 million, or 3%, during the nine months ended September 30, 2014, as compared to the same period in 2013. Initial license revenue increased in the EMEA reportable segment by \$7.0 million, partially offset by declines in the Americas and Asia/Pacific reportable segments of \$1.7 million and \$2.8 million, respectively. The increase in initial license revenue is primarily due to an increase in sales during the nine months ended September 30, 2014. The increase in initial license revenue was partially offset by a decline in capacity related revenues of \$6.9 million, primarily in the Americas reportable segment, due to the timing and relative size of capacity events during the nine months ended September 30, 2014 as compared to the same period in 2013.

*Monthly License Revenue*

Monthly license revenue increased \$0.9 million, or 1%, during the nine months ended September 30, 2014, as compared to the same period in 2013 with the Americas and Asia/Pacific reportable segment increasing by \$0.5 million and \$1.2 million, respectively, partially offset by a decline in the EMEA reportable segments of \$0.8 million.

*Maintenance Revenue*

Maintenance revenue during the nine months ended September 30, 2014, as compared to the same period in 2013 increased \$11.7 million, or 7%. Maintenance revenue increased in the Americas, EMEA and Asia/Pacific reportable segments by \$4.0 million, \$5.5 million and \$2.2 million, respectively. Increases in maintenance revenue are primarily driven by increases in our customer installation base, expanded product usage from existing customers, and increased adoption of our enhanced support services programs.

*Services Revenue*

Services revenue during the nine months ended September 30, 2014 as compared to the same period in 2013 decreased by \$5.4 million, or 7%. Implementation and professional services decreased in the Americas and Asia/Pacific reportable segment by \$1.2 million and \$8.0 million, respectively, partially offset by an increase in the EMEA reportable segment of \$3.8 million. The decrease in services revenue in the Americas reportable segment was partially offset by an increase of \$2.1 million due to incremental ORCC revenues.

*Hosting Revenue*

Hosting revenue during the nine months ended September 30, 2014 as compared to the same period in 2013 increased \$134.4 million, or 78%, due to incremental ORCC revenues and the addition of OPAY and ReD.

**Operating Expenses**

	2014				2013	
	Amount	% of Total Revenue	\$ Change vs 2013	% Change vs 2013	Amount	% of Total Revenue
Operating expenses:						
Cost of license	\$ 18,066	2.5%	\$ 91	0.5%	\$ 17,975	3.1%
	325,801	44.9%	100,409	44.5%	225,392	38.7%

Cost of maintenance, services and hosting						
Research and development	112,653	15.5%	3,471	3.2%	109,182	18.8%
Selling and marketing	82,994	11.4%	6,284	8.2%	76,710	13.2%
General and administrative	75,127	10.3%	(616)	-0.8%	75,743	13.0%
Depreciation and amortization	52,383	7.2%	12,687	32.0%	39,696	6.8%
Total operating expenses	\$ 667,024	91.9%	\$ 122,326	22.5%	\$ 544,698	93.6%

Total operating expenses for the nine months ended September 30, 2014 increased \$122.3 million, or 23% as compared to the same period of 2013. For the nine months ended September 30, 2014, there were approximately \$118.4 million of incremental operating expenses related to the added operations of ORCC, OPAY and ReD. There were approximately \$16.6 million and \$19.2 million of significant transaction related expenses incurred in the nine months ended September 30, 2014 and September 30, 2013, respectively. Significant transaction related expenses for the nine months ended September 30, 2014 included \$6.9 million of personnel related charges and \$9.7 million of professional and other expenses related to the acquisition of ORCC, OPAY and ReD. Excluding these expenses, total operating expenses increased \$6.5 million in the nine months ended September 30, 2014 compared to the same period in 2013 primarily due to an increase in personnel related expenses.

**Table of Contents***Cost of License*

Cost of software license increased \$0.1 million, or 1%, in the nine months ended September 30, 2014 compared to the same period in 2013 primarily due to acquisition related software amortization.

*Cost of Maintenance, Services and Hosting*

Cost of maintenance, services, and hosting increased \$100.4 million, or 45%, in the nine months ended September 30, 2014 compared to the same period in 2013. There were \$91.3 million of incremental expenses related to the added operations of ORCC, OPAY, and ReD. Excluding these expenses, the cost of maintenance, services and hosting fees increased \$9.1 million in the nine months ended September 30, 2014 compared to the same period in 2013 due primarily to \$3.1 million higher third party contractor expenses and \$4.3 million higher personnel related expenses.

*Research and Development*

Research and development expense increased \$3.5 million, or 3%, in the nine months ended September 30, 2014 compared to the same period in 2013 primarily the result of \$6.7 million of incremental expenses related to the addition of ORCC, OPAY, and ReD in the nine months ending September 30, 2014, partially offset by lower contractor costs.

*Selling and Marketing*

Selling and marketing expense increased \$6.3 million, or 8%, in the nine months ended September 30, 2014 compared to the same period in 2013. There were \$4.2 million of incremental expenses related to the added operations of ORCC, OPAY and ReD. Excluding these expenses, the cost of selling and marketing increased \$2.1 million in the nine months ended September 30, 2014 compared to the same period in 2013 primarily due to an increase in personnel related expenses.

*General and Administrative*

General and administrative expense decreased \$0.6 million, or 1%, in the nine months ended September 30, 2014. The decrease was primarily due to a decrease in significant transaction related expense incurred of approximately \$15.7 million during the nine months ended September 30, 2014 compared to \$19.2 million for the same period in 2013. Significant transaction related expenses included personnel related charges and professional and other expenses related to the acquisitions of ORCC, OPAY and ReD, partially offset by an increase in our bad debt allowance.

*Depreciation and Amortization*

Depreciation and amortization expense increased \$12.7 million, or 32%, in the nine months ended September 30, 2014 compared to the same period in 2013 primarily due to depreciation and amortization of acquisition related intangibles and higher capital expenditures.

**Other Income and Expense**

	<b>2014</b>	<b>2013</b>
<b>Amount</b>		<b>Amount</b>

		<b>% of Total Revenue</b>	<b>\$ Change vs 2013</b>	<b>% Change vs 2013</b>		<b>% of Total Revenue</b>
<b>Other income (expense):</b>						
Interest expense	\$ (28,920)	-4.0%	\$ (11,517)	66.2%	\$ (17,403)	-3.0%
Interest income	432	0.1%	(69)	-13.8%	501	0.1%
Other, net	(1,344)	-0.2%	162	-10.8%	(1,506)	-0.3%
<b>Total other income (expense)</b>	<b>\$ (29,832)</b>	<b>-4.1%</b>	<b>\$ (11,424)</b>	<b>62.1%</b>	<b>\$ (18,408)</b>	<b>-3.2%</b>

Interest expense for the nine months ended September 30, 2014 increased \$11.5 million, or 66%, as compared to the same period in 2013 due to the increase in debt obtained in 2014. Interest income for the nine months ended September 30, 2014 was flat as compared to the same period in 2013.

Other, net consists of foreign currency losses and other non-operating items. Foreign currency losses for the nine months ended September 30, 2014 and 2013 were \$1.2 million and \$0.8 million, respectively.

**Table of Contents****Income Taxes**

	2014				2013	
	Amount	% of Total Revenue	\$ Change vs 2013	% Change vs 2013	Amount	% of Total Revenue
Income tax expense	\$ 7,875	1.1%	\$ 2,692	51.9%	\$ 5,183	0.9%
Effective Income tax rate	27.1%		27.8%			

The effective tax rate for the nine months ended September 30, 2014 was 27.1%. The earnings of our foreign entities for the nine months ended September 30, 2014 were \$31.6 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 nine months ended September 30, 2014 was positively impacted by profits in certain foreign jurisdictions taxed at lower rates and domestic losses taxed at a higher rate, partially offset by losses in other foreign jurisdictions taxed at lower rates.

The effective tax rate for the nine months ended September 30, 2013 was 27.8%. The earnings of our foreign entities for the nine months ended September 30, 2013 were \$18.9 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 nine months ended September 30, 2013 was positively impacted by foreign profits taxed at lower rates and a domestic loss taxed at a higher rate as well as recognition of \$1.4 million tax benefit as a result of implementing the 2012 American Taxpayer Relief Act. The effective tax rate for the nine months ended September 30, 2013 was negatively impacted by acquisition related expenses that are not deductible for tax purposes as well as an increase in the valuation allowance against foreign tax credits as a result of the acquisition of ORCC.

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 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 before income taxes for the periods indicated by geographic region (in thousands):

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Americas	\$ 172,918	\$ 136,812	\$ 505,432	\$ 369,504
EMEA	56,793	51,692	161,604	145,982
Asia/Pacific	19,933	25,435	58,889	66,280



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	\$ 249,644	\$ 213,939	\$ 725,925	\$ 581,766
Income (loss) before income taxes:				
Americas	\$ 37,746	\$ 36,320	\$ 80,779	\$ 79,612
EMEA	30,186	14,968	72,526	43,176
Asia/Pacific	9,048	10,641	25,130	19,828
Corporate	(51,815)	(42,820)	(149,366)	(123,956)
	\$ 25,165	\$ 19,109	\$ 29,069	\$ 18,660

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 geographic 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.

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The increase in revenue and income before income taxes for the Americas segment during the three months ended September 30, 2014 is primarily due to the incremental impact of ORCC and the addition of ReD and OPAY operations. The EMEA segment's income before income taxes increased as a result of increased revenue as well as lower relative personnel related costs. The Asia/Pacific segment's income before income taxes decreased primarily as a result of a decrease in revenue. The increase in the Corporate loss before income taxes for the three months ended September 30, 2014, is primarily due to an increase in amortization on acquired intangibles and interest expense. Amortization of acquired intangible assets was approximately \$11.8 million and \$9.2 million during the three months ended September 30, 2014 and 2013, respectively. Interest expense on long term debt was approximately \$10.4 million and \$7.4 million during the three months ended September 30, 2014 and 2013, respectively.

The increase in revenue and income before income taxes for the Americas segment during the nine months ended September 30, 2014 is primarily due to the incremental impact of ORCC and the addition of ReD and OPAY operations. The EMEA segment's income before income taxes increased as result of increased revenue as well as lower relative personnel related costs. The Asia/Pacific segment's income before income taxes increased primarily as a result of reduced personnel costs. The increase in the Corporate loss before income taxes for the nine months ended September 30, 2014, is primarily due to an increase in amortization on acquired intangibles and interest expense. Amortization of acquired intangible assets was approximately \$34.4 million and \$25.2 million during the nine months ended September 30, 2014 and 2013, respectively. Interest expense on long term debt was approximately \$28.8 million and \$17.2 million during the nine months ended September 30, 2014 and 2013, 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 Credit Agreement.

As of September 30, 2014, we had \$60.1 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 September 30, 2014, \$44.2 million of the \$60.1 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.

The following table sets forth summary cash flow data for the periods indicated.

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(amounts in thousands)</b>	
<b>Net cash provided by (used by):</b>		
Operating activities	\$ 71,983	\$ 86,560
Investing activities	(231,772)	(282,562)

Financing activities	125,646	287,731
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Net cash flows provided by operating activities for the nine months ended September 30, 2014 amounted to \$72.0 million as compared to \$86.6 million during the same period in 2013. The comparative period decrease in cash provided by operating activities was primarily due to lower contribution from receivables partially offset by stronger earnings during the first nine months of 2014 when compared to the same period in 2013. Our current policy is to use our operating cash flow primarily for funding capital expenditures, lease payments, stock repurchases and acquisitions.

During the first nine months of 2014 we used cash of \$204.3 million, net of \$0.8 million in cash acquired, to acquire ReD. In addition, we used \$27.4 million to purchase software, property and equipment and other investments during the nine month ended September 30, 2014. During the nine months ended September 30, 2013, we paid \$250.2 million, net of \$9.9 million in cash acquired, to acquire ORCC. In addition, we paid \$14.0 million, net of \$0.2 million in cash acquired, to acquire PTESA during the first nine months of 2013.

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During the nine months ended September 30, 2014, we used \$70.0 million to repurchase common stock. We received proceeds of \$150.0 million and repaid \$37.6 million on the Term Credit Facility during the first nine months of 2014. We received net proceeds of \$78.5 million from Revolving Credit Facility during the nine months ended September 30, 2014. In addition, during the first nine months of 2014, we received proceeds of \$23.6 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 \$5.0 million for the repurchase of restricted stock and performance shares for tax withholdings. In the first nine months of 2013, we received proceeds of \$300.0 million from our Term Credit Facility to fund our purchase of ORCC. In addition, we received proceeds of \$300.0 million from our Senior Notes during the first nine months of 2013. We used \$188.0 million of this debt to repay the Revolving Credit Facility and \$80.6 million to repurchase common stock during the first nine months of 2013.

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 September 30, 2014, we had \$78.5 million and \$567.8 million outstanding under our Revolving and Term Credit Facilities, with up to \$171.5 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 Revolving Credit 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 September 30, 2014 (and at all times during this period) we were in compliance with our debt covenants. The interest rate in effect on our Credit Agreement at September 30, 2014 was 2.41%.

On August 20, 2013, we completed a \$300 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 will accrue from August 20, 2013. The Notes will mature on August 15, 2020.

On August 12, 2014, we borrowed an additional \$150 million under our Term Credit Facility as amended. These additional borrowings were used in connection with the ReD acquisition that was completed on August 12, 2014.

On August 12, 2014, the Fifth Amendment to the Credit Agreement became effective. The Fifth Amendment, among other things, permitted the acquisition of ReD, increased the aggregate amount of permitted intercompany indebtedness between us and our subsidiaries that are guarantors under the credit facility and our subsidiaries that are not guarantors under the credit facility from \$75 million to \$225 million and increased the amount of unsecured indebtedness permitted under the credit facility from \$350 million to \$500 million, in each case subject to the terms of the Credit Agreement, as amended. The Fifth Amendment also amends the Collateral Agreement dated November 10,

2011 (as amended prior to August 12, 2014) among us, OPAY, the other grantors party thereto and Wells Fargo Bank, National Association, as administrative agent, to release the administrative agent's security interest in, and lien on, certain property of OPAY.

In connection with the incremental borrowings under the Term Credit Facility and the Fifth Amendment, we incurred debt issuance costs of \$4.5 million, of which \$4.4 million were paid as of September 30, 2014.

*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 our common stock. In February 2012, our Board of Directors approved an increase of \$52.1 million to our current stock repurchase authorization, bringing the total authorization to \$262.1 million.

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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 the stock repurchase program. In February 2014, our Board of Directors approved an additional \$100 million for the stock repurchase program.

We repurchased 3,578,427 shares for \$70.0 million under the program during the nine months ended September 30, 2014. Under the program to date, we have purchased 37,108,467 shares for approximately \$395.8 million. The maximum remaining authorized for purchase under the stock repurchase program was approximately \$138.3 million as of September 30, 2014.

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 nine months ended September 30, 2014, other than as discussed below, 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, 2013.

	Payments due by Period (amounts in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
<b>Contractual Obligations</b>					
Acquired operating lease obligations (1)	\$ 5,074	\$ 291	\$ 2,277	\$ 1,925	\$ 581
New operating lease obligations (2)	10,851	284	4,188	3,480	2,899
Term Credit Facility (3)	567,787	83,381	190,586	293,820	
Term Credit Facility interest (4)	38,068	12,966	19,329	5,773	
Revolving Credit Facility (3)	78,500			78,500	
Revolving Credit Facility interest (4)	7,410	1,892	3,784	1,734	
<b>Total</b>	<b>\$ 707,690</b>	<b>\$ 98,814</b>	<b>\$ 220,164</b>	<b>\$ 385,232</b>	<b>\$ 3,480</b>

(1) Operating leases acquired as a result of the ReD acquisition.

(2) New operating lease obligations entered into during the nine months ended September 30, 2014.

(3) Increases in the Term Credit Facility and Revolving Credit Facility primarily represent debt used to partially fund acquisitions during the nine months ended September 30, 2014.

(4) Based upon the debt outstanding and interest rate in effect at September 30, 2014 of 2.41%.

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 September 30, 2014 is \$16.2 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

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Business Combinations

Intangible Assets and Goodwill

Stock-Based Compensation

Accounting for Income Taxes

During the nine months ended September 30, 2014, there were no significant changes to our critical accounting policies and estimates other than as disclosed in Note 1, *Condensed Consolidated Financial Statements*. 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, 2013, filed on February 28, 2014, for a more complete discussion of our critical accounting policies and estimates.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes to our market risk for the nine months ended September 30, 2014. 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 South Africa, 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 September 30, 2014, 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 \$0.1 million annually.

We had approximately \$946.3 million of debt outstanding at September 30, 2014 with \$300.0 million in Senior Notes and \$646.3 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 2.41% at September 30, 2014. 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 \$1.6 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, September 30, 2014. 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 September 30, 2014.

*Changes in Internal Control over Financial Reporting*

On August 12, 2014, the Company completed its acquisition of ReD. The Company believes the internal controls and procedures of ReD have had a material effect on the Company's internal control over financial reporting. See Note 3, *Business Combination*, to the Condensed Consolidated Financial Statements included in Item 1 for discussion of the acquisition and related financial data.

The Company is currently in the process of integrating ReD operations. The Company anticipates 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 September 30, 2014, and determined that except for the changes 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. We are not currently a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, we believe would be likely to have a material effect on our financial condition or results of operations.

**Item 1A. RISK FACTORS**

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, 2013. 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.

**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 September 30, 2014:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program</b>
July 1, 2014 through July 31, 2014		\$		\$ 138,325,000
August 1, 2014 through August 31, 2014				138,325,000
September 1, 2014 through September 30, 2014	22,675(1)	19.50		138,325,000
Total	22,675	\$ 19.50		

(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 September 30, 2014, 55,114 shares of RSAs vested. We withheld 22,675 of those shares, respectively, 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

intend to use existing cash and cash equivalents to fund these repurchases. In May 2006, our Board of Directors approved an increase of \$30 million to the stock repurchase program, bringing the total of the approved program to \$110 million. In March 2007, our Board of Directors approved an increase of \$100 million to its current repurchase authorization, bringing the total authorization to \$210 million. In February 2012, our Board of Directors approved an increase of \$52.1 million to its 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, our Board of Directors approved an additional \$100 million for stock repurchases. In February, 2014, our Board of Directors again approved an additional \$100 million for stock repurchases. Approximately \$138.3 million remains available at September 30, 2014. 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.

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**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)	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
10.29 (4)	Fifth Amendment to Credit Agreement and Second Amendment to Collateral Agreement, dated August 12, 2014, among ACI Worldwide, Inc., the subsidiary guarantors party thereto, the lenders party thereto, Wells Fargo Bank, National Association, as administrative agent, and Bank of America, N.A., as lead arranger
10.30 (5)	Lender Addition and Acknowledgement Agreement, dated August 12, 2014, by and among ACI Worldwide, Inc., the subsidiary guarantors party thereto, the incremental term lenders party thereto, Wells Fargo Bank, National Association, as administrative agent, and Bank of America, N.A., as lead arranger
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
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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, 2014.

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- (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.
- (4) Incorporated herein by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed August 18, 2014.
- (5) Incorporated herein by reference to Exhibit 10.2 to the registrant's current report on Form 8-K filed August 18, 2014.

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**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: October 30, 2014

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

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

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