

Core-Mark Holding Company, Inc.

Form 10-Q

November 06, 2009

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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, 2009**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission File Number: 000-51515**

**CORE-MARK HOLDING COMPANY, INC.  
(Exact name of registrant as specified in its charter)**

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

**20-1489747  
(IRS Employer  
Identification No.)**

**395 Oyster Point Boulevard, Suite 415  
South San Francisco, CA  
(Address of principal executive offices)**

**94080  
(Zip Code)**

**(650) 589-9445**

**(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 requirement for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a 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

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Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

As of October 30, 2009, 10,438,517 shares of the registrant's common stock, \$0.01 par value per share, were outstanding.

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**FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2009**

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In millions, except share data)

(Unaudited)

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 21.3	\$ 15.7
Restricted cash	14.4	11.4
Accounts receivable, net of allowance for doubtful accounts of \$9.3 and \$8.8 million, respectively	165.0	146.9
Other receivables, net	41.7	34.1
Inventories, net (Note 3)	221.4	238.4
Deposits and prepayments	32.2	26.5
Deferred income taxes	10.5	12.2
<b>Total current assets</b>	<b>506.5</b>	<b>485.2</b>
Property and equipment, net	80.1	74.2
Deferred income taxes	9.0	12.1
Goodwill	3.7	3.7
Other non-current assets, net	34.3	37.4
<b>Total assets</b>	<b>\$ 633.6</b>	<b>\$ 612.6</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 72.6	\$ 66.0
Book overdrafts	13.9	17.8
Cigarette and tobacco taxes payable	104.7	103.2
Accrued liabilities	64.1	58.1
Income taxes payable	0.3	
Deferred income taxes	1.8	1.6
<b>Total current liabilities</b>	<b>257.4</b>	<b>246.7</b>
Long-term debt, net (Note 5)	0.8	30.8
Other long-term liabilities	7.8	11.1
Claims liabilities, net of current portion	32.1	31.3
Pension liabilities	19.5	19.1

Total liabilities	317.6	339.0
Stockholders' equity:		
Common stock; \$0.01 par value (50,000,000 shares authorized, 10,923,871 and 10,746,416 shares issued; and 10,428,509 and 10,349,700 shares outstanding at September 30, 2009 and December 31, 2008, respectively)	0.1	0.1
Additional paid-in capital	213.7	209.3
Treasury stock at cost, 495,362 and 396,716 shares of common stock at September 30, 2009 and December 31, 2008, respectively	(13.2)	(11.0)
Retained earnings	121.1	82.3
Accumulated other comprehensive loss	(5.7)	(7.1)
Total stockholders' equity	316.0	273.6
Total liabilities and stockholders' equity	\$ 633.6	\$ 612.6

See accompanying notes to condensed consolidated financial statements.

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**CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In millions, except per share data)  
(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net sales	\$ 1,776.1	\$ 1,672.7	\$ 4,879.7	\$ 4,552.7
Cost of goods sold	1,674.2	1,578.8	4,572.2	4,286.5
Gross profit	101.9	93.9	307.5	266.2
Warehousing and distribution expenses	51.1	54.3	146.3	151.2
Selling, general and administrative expenses	34.2	30.5	103.3	95.5
Amortization of intangible assets	0.5	0.5	1.6	1.5
Total operating expenses	85.8	85.3	251.2	248.2
Income from operations	16.1	8.6	56.3	18.0
Interest expense	0.4	0.7	1.3	1.6
Interest income		(0.2)	(0.2)	(0.9)
Foreign currency transaction (gains) losses, net	(0.4)	1.5	(2.0)	2.6
Income before income taxes	16.1	6.6	57.2	14.7
Provision for income taxes (Note 6)	4.8	1.3	18.4	4.2
Net income	\$ 11.3	\$ 5.3	\$ 38.8	\$ 10.5
Basic income per common share (Note 7)	\$ 1.08	\$ 0.51	\$ 3.71	\$ 1.00
Diluted income per common share (Note 7)	\$ 1.02	\$ 0.49	\$ 3.59	\$ 0.95
Basic weighted average shares (Note 7)	10.5	10.4	10.5	10.5
Diluted weighted average shares (Note 7)	11.0	10.9	10.8	11.0

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)

(Unaudited)

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Net income	\$ 38.8	\$ 10.5
Adjustments to reconcile net income to net cash provided by operating activities:		
LIFO and inventory provisions	5.3	10.8
Amortization of debt issuance costs	0.4	0.4
Amortization of stock-based compensation expense	3.8	2.8
Bad debt expense, net	1.4	1.1
Depreciation and amortization	13.6	12.9
Foreign currency transaction (gains) losses, net	(2.0)	2.6
Deferred income taxes	4.9	
Changes in operating assets and liabilities:		
Accounts receivable	(17.8)	(16.4)
Other receivables	(6.7)	(2.6)
Inventories	16.6	(28.5)
Deposits, prepayments and other non-current assets	(6.1)	(5.9)
Accounts payable	5.2	24.4
Cigarette and tobacco taxes payable	(3.3)	7.8
Pension, claims and other accrued liabilities	1.8	3.2
Income taxes payable	0.1	0.1
Net cash provided by operating activities	56.0	23.2
Cash flows from investing activities:		
Restricted cash	(1.5)	(1.6)
Acquisition of business, net of cash acquired		(26.4)
Additions to property and equipment, net	(13.5)	(13.9)
Capitalization of software	(0.3)	(0.7)
Net cash used in investing activities	(15.3)	(42.6)
Cash flows from financing activities:		
(Repayments) borrowing under revolving credit facility, net	(30.0)	27.8
Repurchases of common stock shares (treasury stock)	(2.2)	(11.0)
Proceeds from exercise of common stock options	1.0	2.5
Tax withholdings related to net share settlements of restricted stock units	(0.3)	
Excess tax deductions associated with stock-based compensation	0.2	0.6
Decrease in book overdrafts	(4.0)	(6.8)
Net cash (used in) provided by financing activities	(35.3)	13.1



Effects of changes in foreign exchange rates	0.2	(1.1)
Increase (decrease) in cash and cash equivalents	5.6	(7.4)
Cash and cash equivalents, beginning period	15.7	21.3
Cash and cash equivalents, end of period	\$ 21.3	\$ 13.9

Supplemental disclosures:

Cash paid during the period for:

Income taxes, net of refunds	\$ 11.5	\$ 5.8
Interest	\$ 0.8	\$ 1.1

See accompanying notes to condensed consolidated financial statements.

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**CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**1. Summary of Company Information**

**Business**

Core-Mark Holding Company, Inc. and subsidiaries (referred herein as we, us, our, the Company or Core-Mark) one of the leading wholesale distributors to the convenience retail industry in North America in terms of annual sales, providing sales and marketing, distribution and logistics services to customer locations across the United States and Canada. We operate a network of 26 distribution centers (including two distribution facilities that we operate as a third-party logistics provider) in the United States and Canada, distributing a diverse line of national and private label convenience store products to over 24,000 customer locations. The products we distribute include cigarettes, tobacco, candy, snacks, fast food, groceries, fresh products, dairy, non-alcoholic beverages, general merchandise, and health and beauty care products. We service a variety of stores, including traditional convenience stores, grocery stores, drug stores, liquor stores and other stores that carry convenience products.

**Basis of Presentation and Principles of Consolidation**

The accompanying unaudited condensed consolidated balance sheet as of September 30, 2009, the condensed consolidated statements of operations for the three and nine months ended September 30, 2009 and 2008, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2009 and 2008 have been prepared on the same basis as our audited consolidated financial statements and include all adjustments necessary for the fair presentation of our consolidated results of operations, financial position and cash flows. Results for the interim periods are not necessarily indicative of results to be expected for the full year or any other future period. The condensed consolidated balance sheet as of December 31, 2008 has been derived from our audited financial statements.

The significant accounting policies and certain financial information that are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, but which are not required for interim reporting purposes, have been omitted. The unaudited condensed consolidated interim financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2008, which are included in our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission ( SEC ) on March 13, 2009.

Management has evaluated subsequent events through November 5, 2009 and has made all relevant disclosures.

**2. Recent Accounting Pronouncements**

On July 1, 2009, we adopted Accounting Standards Update (ASU) No. 2009-1, Topic 105- Generally Accepted Accounting Principles, which amended Accounting Standards Codification (ASC) 105, Generally Accepted Accounting Principles to establish the Codification as the source of authoritative U.S. GAAP recognized by the Financial Accounting Standards Board (FASB) to be applied by all non-governmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. On the effective date, the Codification superseded all then existing non-SEC accounting and reporting standards. The adoption of these sections did not have a material impact on our consolidated financial statements.

**3. Inventories**

Net income reflects the application of the last-in, first-out (LIFO) method of valuing inventories in the United States based upon estimated annual producer price indices. Inventories in Canada are valued on a first-in, first-out (FIFO) basis as LIFO is not a permitted inventory valuation method in Canada. During periods of rising prices, the LIFO method of costing inventories generally results in higher costs being charged against income, while lower costs are retained in inventories. We recorded LIFO expense of \$0.2 million for the three months ended September 30, 2009 and \$6.0 million for the same period in 2008, and \$5.3 million and \$10.7 million for the first nine months of 2009 and 2008, respectively.



**Table of Contents****4. Comprehensive Income**

Comprehensive income for the three and nine months ended September 30, 2009 and 2008 was as follows (in millions):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net income	\$ 11.3	\$ 5.3	\$ 38.8	\$ 10.5
Foreign currency translation adjustment	1.4	(0.2)	1.4	(0.4)
Total comprehensive income	\$ 12.7	\$ 5.1	\$ 40.2	\$ 10.1

**5. Long-term Debt**

Total long-term debt as presented in the condensed consolidated balance sheets consists of the following (in millions):

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
Amounts borrowed (Credit Facility)	\$	\$ 30.0
Notes payable (Capitalized lease equipment)	0.8	0.8
Total long-term debt, net	\$ 0.8	\$ 30.8

In October 2005, we entered into a \$250 million five-year revolving credit facility ( Credit Facility ) which expires in October 2010. All obligations under the Credit Facility are secured by first priority liens upon substantially all of our present and future assets. The terms of the Credit Facility permit prepayment without penalty at any time (subject to customary breakage costs with respect to LIBOR or CDOR-based loans prepaid prior to the end of an interest period). In March 2008, we entered into a Second Amendment to our Credit Facility (the Second Amendment ). This Amendment established our basket for permitted acquisitions made after the date of the Second Amendment at \$100 million and increased our basket for permitted stock repurchases to \$30 million. Amounts borrowed, outstanding letters of credit and amounts available to borrow under the Credit Facility were as follows (in millions):

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
Amounts borrowed	\$	\$ 30.0
Outstanding letters of credit	\$ 26.1	\$ 24.4
Amounts available to borrow	\$ 217.2	\$ 186.0

The Credit Facility contains restrictive covenants, including among others, limitations on dividends and other restricted payments, other indebtedness, liens, investments and acquisitions and certain asset sales. As of September 30, 2009, we are in compliance with all of the covenants under the Credit Facility.

Our weighted-average interest rate was calculated based on our daily cost of borrowing which was computed on a blend of prime and LIBOR rates. The weighted-average interest rate on our revolving credit facility for the three months ended September 30, 2009 was 2.7% and 3.9% for the same period in 2008, and for the nine months ended September 30, 2009 was 1.9% and 4.1% for the same period in 2008. We paid total unused facility fees of

\$0.1 million for both the three months ended September 30, 2009 and 2008 and \$0.4 million for both the nine months ended September 30, 2009 and 2008.

**Table of Contents****6. Income Taxes**

Our effective tax rate was 29.8% for the three months ended September 30, 2009 compared to 19.7% for the same period in 2008. Included in the provision for income taxes for the three months ended September 30, 2009 was a \$1.4 million net benefit compared to a \$1.3 million net benefit for the three months ended September 30, 2008. The net benefits relate primarily to the expiration of the statute of limitations for uncertain tax positions, adjustments of prior year's estimates and state tax credits claimed for prior years.

Our effective tax rate was 32.2% for the nine months ended September 30, 2009 compared to 28.6% for the same period in 2008. Included in the provision for income taxes for the nine months ended September 30, 2009 was a \$4.1 million net benefit, inclusive of a net interest recovery of \$1.2 million related to unrecognized tax benefits, compared to a net benefit of \$1.7 million, inclusive of net interest expense of \$0.1 million, for the nine months ended September 30, 2008. The net benefits related primarily to the expiration of the statute of limitations for uncertain tax positions, adjustments of prior year's estimates and state tax credits claimed for prior years.

At September 30, 2009, the total gross amount of unrecognized tax benefits, which was included in other tax liabilities, related to federal, state and foreign taxes, was approximately \$3.9 million. The total amount of net unrecognized tax benefits that would impact the effective tax rate, if recognized, would be \$3.1 million as of September 30, 2009. The expiration of the statute of limitations for certain tax positions in future years could impact the total gross amount of unrecognized tax benefits by \$2.7 million through September 30, 2010.

We file U.S. federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2006 to 2008 tax years remain subject to examination by federal and state tax authorities. The 2004 and 2005 tax years are still open for certain state tax authorities. The 2002 to 2008 tax years remain subject to examination by the tax authorities in certain foreign jurisdictions. In 2007, the Canada Revenue Agency initiated an examination of our Canadian tax returns for 2003 and 2004. The examination was finalized in 2009 and resulted in no significant adjustments.

**7. Earnings Per Share**

The following tables set forth the computation of basic and diluted net income per share (in millions, except per share amounts):

	<b>Three Months Ended September 30,</b>					
	<b>2009</b>	<b>2009</b>	<b>Net Income</b>	<b>Net</b>	<b>2008</b>	<b>Net Income</b>
	<b>Net</b>	<b>Weighted</b>	<b>Per</b>	<b>Income</b>	<b>Weighted</b>	<b>Per</b>
	<b>Income</b>	<b>Average</b>	<b>Common</b>	<b>Net</b>	<b>Average</b>	<b>Common</b>
	<b>Outstanding</b>	<b>Shares</b>	<b>Share</b>	<b>Income</b>	<b>Shares</b>	<b>Share</b>
Basic EPS	\$ 11.3	10.5	\$ 1.08	\$ 5.3	10.4	\$ 0.50
Effect of dilutive common share equivalents:						
Stock options		0.2	(0.02)		0.2	(0.01)
Unvested restricted stock units			(0.01)			
Warrants		0.3	(0.03)		0.3	(0.01)
Diluted EPS	\$ 11.3	11.0	\$ 1.02	\$ 5.3	10.9	\$ 0.48

	<b>Nine Months Ended September 30,</b>					
	<b>2009</b>	<b>2009</b>	<b>Net</b>	<b>Net</b>	<b>2008</b>	<b>Net</b>
	<b>Net</b>	<b>Weighted</b>	<b>Income</b>	<b>Income</b>	<b>Weighted</b>	<b>Income</b>
	<b>Outstanding</b>	<b>Average</b>	<b>Per</b>	<b>Net</b>	<b>Average</b>	<b>Per</b>
	<b>Shares</b>	<b>Shares</b>	<b>Share</b>	<b>Income</b>	<b>Shares</b>	<b>Share</b>

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	<b>Income</b>	<b>Average Shares Outstanding</b>	<b>Per Common Share</b>	<b>Income</b>	<b>Average Shares Outstanding</b>	<b>Per Common Share</b>
Basic EPS	\$ 38.8	10.5	\$ 3.71	\$ 10.5	10.5	\$ 0.99
Effect of dilutive common share equivalents:						
Stock options		0.2	(0.06)		0.2	(0.02)
Unvested restricted stock units			(0.01)			
Warrants		0.1	(0.05)		0.3	(0.03)
Diluted EPS	\$ 38.8	10.8	\$ 3.59	\$ 10.5	11.0	\$ 0.94

Note: Basic and diluted earnings per share are calculated based on unrounded actual amounts.

Certain options and warrants to purchase common stock were outstanding but were not included in the computation of diluted earnings per share because the effect would be anti-dilutive. There were 113,162 and 260,164 anti-dilutive stock options for the three and nine months ended September 30, 2009, respectively, compared to 116,518 anti-dilutive stock options for the three and nine months ended September 30, 2008. There were no anti-dilutive warrants for the three and nine months ended September 30, 2009 and 2008, respectively.

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Total stock-based compensation cost recognized in the accompanying condensed consolidated statements of operations was \$1.4 million and \$0.9 million for the three months ended September 30, 2009 and 2008, respectively, and \$3.8 million and \$2.8 million for the nine months ended September 30, 2009 and 2008, respectively. Total unrecognized compensation cost related to non-vested share-based compensation arrangements was \$6.0 million at September 30, 2009. This balance is expected to be recognized over a weighted-average period of 1.7 years. The following table summarizes the activity for all stock options, restricted stock units (RSU), and performance shares under all of our Long-Term Incentive Plans (LTIP) for the nine months ended September 30, 2009:

Priorities	December 31, 2008		Granted	2009				September 30, 2009		
	Outstanding			Exercised		Canceled/Reclass		Outstanding		
	Number	Price	Number	Price	Number	Price	Number	Price	Number	Price
Options	41,978	\$ 0.01		\$	(28,950)	\$ 0.01		\$	13,028	\$ 0.01
Performance Shares	593,290	17.39	2,543	19.19	(61,963)	15.50	(1,000)	36.03	532,871	17.58
Americas		EMEA	Asia/ Pacific	Total						
	523,914	\$ 240,303	\$ 64,378	\$ 828,595						
	(47,432)			(47,432)						
	476,482	240,303	64,378	781,163						
	(788)	(32)		(820)						
	(695)	(3,436)	(2,796)	(6,927)						
	474,999	\$ 236,835	\$ 61,582	\$ 773,416						

- (1) Goodwill from acquisitions relates to adjustments in the goodwill recorded for the acquisition of Retail Decisions Europe Limited and Retail Decisions, Inc. (collectively "ReD") as discussed in Note 2. The purchase price allocation for ReD is preliminary as of March 31, 2015 and accordingly is subject to future changes during the maximum one-year allocation period.

In accordance with ASC 350, *Intangibles - Goodwill and Other*, we assess goodwill for impairment annually during the fourth quarter of our fiscal year using October 1 balances or when there is evidence that events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. We evaluate goodwill at the reporting unit level and have identified our reportable segments, Americas, EMEA, and Asia/Pacific, as our reporting



units. Recoverability of goodwill is measured using a discounted cash flow model incorporating discount rates commensurate with the risks involved. Use of a discounted cash flow model is common practice in impairment testing in the absence of available transactional market evidence to determine the fair value.

The calculated fair value was substantially in excess of the current carrying value for all reporting units based upon our October 1, 2014 annual impairment test and there have been no indications of impairment in the subsequent periods.

### **Revenue**

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

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

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

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

(in thousands)	Three Months Ended March 31,	
	2015	2014
Software license fees	\$ 2,007	\$ 6,856
Maintenance fees	943	2,216
Services	103	8
Total	\$ 3,053	\$ 9,080

**Recently Issued Accounting Standards**

In April 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2015-3, *Interest-Imputation of Interest*. This ASU is an amendment to the Accounting Standard Codification 835, *Interest*, to explicitly address the accounting treatment and presentation of debt issuance costs. The amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU is effective for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. We have assessed the impact of this standard and do not anticipate it having a material impact on our financial position, results of operations or cash flow.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers ( ASC 606 )*. This ASU supersedes the revenue recognition requirements in Accounting Standard Codification 605, *Revenue Recognition*, and most industry-specific guidance. The standard requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. On April 1, 2015, the FASB delayed the effective date for this ASU to fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. The standard permits the use of either the retrospective or cumulative effect transition method. At this time, the Company has not selected a transition method. The Company is currently assessing the impact of the adoption of ASU 2014-09 on its financial position, results of operations, and cash flow.

**2. Acquisitions****Fiscal 2014 Acquisitions**

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

*Retail Decisions*

On August 12, 2014, the Company completed the acquisitions of Retail Decisions Europe Limited ( ReD Europe ) and all its subsidiaries and Retail Decisions, Inc ( ReD, Inc. ) (collectively 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.

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 3, *Debt*, for terms of the financing arrangement.

The Company incurred approximately \$2.7 million in transaction related expenses during the year ended December 31, 2014, including fees to the investment bank, legal and other professional fees.

ReD contributed approximately \$10.3 million in revenue and an estimated operating loss of \$1.7 million for the three months ended March 31, 2015, 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, other assets and liabilities, 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.

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In connection with the acquisition, the Company recorded the following amounts based upon its purchase price allocation as of March 31, 2015. 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		10,106
Deferred income taxes, net		282
Other current assets		9,931
<b>Total current assets acquired</b>		<b>21,114</b>
<b>Noncurrent assets:</b>		
Property and equipment		3,354
Goodwill		134,824
Software	5-7 years	33,136
Customer relationships	18 years	50,480
Trademarks	5 years	3,980
Deferred income taxes		1,622
Other noncurrent assets		416
<b>Total assets acquired</b>		<b>248,926</b>
<b>Current liabilities:</b>		
Accounts payable		4,624
Employee compensation		6,481
Other current liabilities		6,168
<b>Total current liabilities acquired</b>		<b>17,273</b>
<b>Noncurrent liabilities:</b>		
Deferred income taxes		26,404
Other noncurrent liabilities		164
<b>Total liabilities acquired</b>		<b>43,841</b>
<b>Net assets acquired</b>		<b>\$ 205,085</b>

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

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

### **3. Debt**

As of March 31, 2015, the Company had \$22.0 million, \$528.1 million and \$300.0 million outstanding under its Revolving Credit Facility, Term Credit Facility and Senior Notes, respectively, with up to \$228.0 million of unused borrowings under the Revolving Credit Facility portion of the Credit Agreement, as amended. The amount of unused borrowings actually available varies in accordance with the terms of the agreement.

**Table of Contents***Credit Agreement*

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

Borrowings under the Credit Facility bear interest at a rate per annum equal to, at the Company's option, either (a) a base rate determined by reference to the highest of (1) the rate of interest per annum publicly announced by the Administrative Agent as its Prime Rate, (2) the federal funds effective rate plus 1/2 of 1% and (3) a LIBOR based rate determined by reference to the costs of funds for U.S. dollar deposits for a one-month interest period adjusted for certain additional costs plus 1% or (b) a LIBOR based rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs, in each case plus an applicable margin. The applicable margin for borrowings under the *Revolving Credit Facility* is, based on the calculation of the applicable consolidated total leverage ratio, between 0.50% to 1.50% with respect to base rate borrowings and between 1.50% and 2.50% with respect to LIBOR based borrowings. Interest is due and payable monthly. The interest rate in effect at March 31, 2015 for the *Credit Facility* was 2.68%.

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

Maturities on long-term debt outstanding at March 31, 2015 are as follows:

**Fiscal year ending December 31,****(in thousands)**

2015	\$ 67,499
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2016	95,293
2017	95,293
2018	291,998
2019	
Thereafter	300,000
<b>Total</b>	<b>\$ 850,083</b>

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

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

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

The Credit Agreement and Senior Notes contain certain customary affirmative covenants and negative covenants that limit or restrict, subject to certain exceptions, the incurrence of liens, indebtedness of subsidiaries, mergers, advances, investments, acquisitions, transactions with affiliates, change in nature of business and the sale of the assets. The Company is also required to maintain a consolidated leverage ratio at or below a specified amount and a consolidated fixed charge coverage ratio at or above a specified amount. If an event of default, as specified in the Credit Agreement and Senior Notes agreement, shall occur and be continuing, the Company may be required to repay all amounts outstanding under the Credit Facility and Senior Notes. As of March 31, 2015, and at all times during the period, the Company was in compliance with its financial debt covenants.

<b>(in thousands)</b>	<b>As of March 31, 2015</b>	<b>As of December 31, 2014</b>
Term credit facility	\$ 528,083	\$ 547,935
Revolving credit facility	22,000	44,000
6.375% Senior Notes, due August 2020	300,000	300,000
Total debt	850,083	891,935
Less current portion of term credit facility	91,323	87,352
Total long-term debt	\$ 758,760	\$ 804,583

**4. Fair Value of Financial Instruments**

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

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

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



data by correlation or other means.

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

*Available-for-Sale Securities*

Equity securities are reported at fair value utilizing Level 1 inputs. The Company's equity securities of \$37.3 million and \$33.8 million at March 31, 2015 and December 31, 2014, respectively, were comprised entirely of Yodlee, Inc. (Yodlee) common stock and are included in noncurrent assets in the accompanying condensed consolidated balance sheet. The Company utilized quoted prices from an active exchange market to fair value its equity securities.

*Debt*

The fair value of our Credit Agreement approximates the carrying value due to the floating interest rate (Level 2 of the fair value hierarchy). The Company measures the fair value of its Senior Notes based on Level 2 inputs, which include quoted market prices and interest rate spreads of similar securities. The fair value of our Senior Notes was \$315 million at March 31, 2015 and December 31, 2014.

*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).

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The Company assesses its classifications within the fair value hierarchy at each reporting period. There were no transfers between any levels of the fair value hierarchy during the periods ended March 31, 2015 and December 31, 2014.

**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 three months ended March 31, 2015 and 2014 totaled 46,651 and 32,346, 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 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, 2014	5,282,693	\$ 12.06		
Granted	2,055,514	19.12		
Exercised	(664,229)	10.41		
Forfeited	(2,575)	17.15		
Outstanding as of March 31, 2015	6,671,403	\$ 14.40	7.05	\$ 48,465,441
Exercisable as of March 31, 2015	3,689,027	\$ 10.76	5.18	\$ 40,228,828

As of March 31, 2015, the Company expects that 93.0 % of the options will vest over the vesting period.

The weighted-average grant date fair value of stock options granted during the three months ended March 31, 2015 and 2014 was \$6.49 and \$9.02, respectively. The Company issued treasury shares for the exercise of stock options during the three months ended March 31, 2015 and 2014. The total intrinsic value of stock options exercised during the three months ended March 31, 2015 and 2014 was \$6.4 million and \$4.7 million, respectively.

The fair value of options that do not vest based on the achievement of certain market conditions granted during the three months ended March 31, 2015 and 2014 were estimated on the date of grant using the Black-Scholes option-pricing model, a pricing model acceptable under U.S. GAAP, with the following weighted-average assumptions:

	<b>Three Months Ended March 31, 2015</b>	<b>Three Months Ended March 31, 2014</b>
Expected life (years)	5.93	5.93
Interest rate	1.4%	1.8%
Volatility	32.1%	45.2%
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.

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During the three months ended March 31, 2015, the Company granted supplemental stock options with three tranches at a grant date fair value of \$8.01, \$7.56 and \$7.00, respectively, per share that vest, if at all, based upon (i) tranche one any time after the third anniversary date if the stock has traded at 133% of the exercise price for at least 20 consecutive trading days, (ii) tranche two any time after the fourth anniversary date if the stock has traded at 167% of the exercise price for at least 20 consecutive trading days, and (iii) tranche three any time after the fifth anniversary date if the stock has traded at 200% of the exercise price for at least 20 consecutive trading days. The employees must also remain employed with the Company as of the anniversary date in order for the options to vest. The exercise price of the supplemental stock options is the closing market price on the date the awards were granted. In order to determine the grant date fair value of the supplemental stock options, a Monte Carlo simulation model was used. With respect to options granted that vest based on the achievement of certain market conditions, the grant date fair value of such options was estimated using the following weighted-average assumptions:

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

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

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

	<b>Number of Shares</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value of In-the-Money Options</b>
Outstanding as of December 31, 2014	46,512	\$ 36.73		
Exercised	(240)	13.92		
Cancelled	(6,366)	46.80		
Outstanding as of March 31, 2015	39,906	\$ 35.27	1.62	\$ 51,493
Exercisable as of March 31, 2015	39,906	\$ 35.27	1.62	\$ 51,943

A summary of nonvested long-term incentive program performance share awards ( LTIP performance shares ) outstanding as of March 31, 2015 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>
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Nonvested as of December 31, 2014	1,145,916	\$	14.84
Granted	1,025,863		19.12
Forfeited	(4,643)		12.14
Vested	(548,671)		9.75
Change in expected attainment for 2011 grants	(54,305)		9.75
Nonvested as of March 31, 2015	1,564,160	\$	19.62

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During the three months ended March 31, 2015, 548,671 shares of the LTIPs vested. The Company withheld 196,169 of those shares to pay the employees' portion of the minimum payroll withholding taxes.

A summary of nonvested restricted share awards ( RSAs ) as of March 31, 2015 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, 2014	183,209	\$ 17.11
Granted	13,915	21.56
Vested	(999)	15.88
Nonvested as of March 31, 2015	196,125	\$ 17.43

During the three months ended March 31, 2015, 999 shares of the RSAs vested. The Company withheld 376 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*

A summary of nonvested Transaction RSAs issued under the S1 Corporation 2003 Stock Incentive Plan as of March 31, 2015 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, 2014	17,565	\$ 11.80
Forfeited	(2,910)	11.80
Nonvested as of March 31, 2015	14,655	\$ 11.80

As of March 31, 2015, there were unrecognized compensation costs of \$17.3 million related to nonvested stock options, \$1.4 million related to the nonvested RSAs, and \$23.1 million related to the LTIP performance shares, which the Company expects to recognize over weighted-average periods of 2.5 years, 1.2 years, and 2.7 years, respectively.

The Company recorded stock-based compensation expenses for the three months ended March 31, 2015 and 2014 related to stock options, LTIP performance shares, RSAs, and the ESPP of \$3.9 million and \$4.8 million, respectively, with corresponding tax benefits of \$1.5 million and \$1.8 million, respectively. Tax benefits in excess of the option's grant date fair value are classified as financing cash flows. Estimated forfeiture rates, stratified by employee classification, have been included as part of the Company's calculations of compensation costs. The Company recognizes compensation costs for stock option awards that vest with the passage of time with only service conditions on a straight-line basis over the requisite service period. The Company recognizes compensation costs for stock option awards that vest with service and market-based conditions on a straight-line basis over the longer of the requisite service period or the estimated period to meet the defined market-based condition.

Cash received from option exercises for the three months ended March 31, 2015 and 2014 was \$6.9 million and \$2.9 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$2.4 million and \$1.8 million for the three months ended March 31, 2015 and 2014, respectively.

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

At March 31, 2015, software net book value totaling \$206.8 million, net of \$132.4 million of accumulated amortization, includes the net book value of software marketed for external sale of \$80.6 million. The remaining software net book value of \$126.2 million is comprised of various software that has been acquired or developed for internal use.

At December 31, 2014, software net book value totaled \$209.5 million, net of \$121.6 million of accumulated amortization. Included in this amount is software marketed for external sale of \$85.9 million. The remaining software net book value of \$123.6 million is comprised of various software that has been acquired or developed for internal use.

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Quarterly amortization of software marketed for external sale is computed using the greater of the ratio of current revenues to total estimated revenues expected to be derived from the software or the straight-line method over an estimated useful life of three to ten years. Software for resale amortization expense recorded in the three months ended March 31, 2015 and 2014 totaled \$3.9 million and \$3.5 million, respectively. These software amortization expense amounts are reflected in cost of software license fees in the condensed consolidated statements of operations.

Quarterly amortization of software for internal use is computed using the straight-line method over an estimated useful life of three to ten years. Software for internal use includes software acquired through acquisitions that is used to provide certain of our hosted offerings. Amortization of software for internal use of \$8.5 million and \$5.2 million for the three months ended March 31, 2015 and 2014, respectively, is included in depreciation and amortization in the condensed consolidated statements of operations.

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

(in thousands)	March 31, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance
Customer relationships	\$ 317,471	\$ (72,345)	\$ 245,126	\$ 322,216	\$ (68,616)	\$ 253,600
Trademarks and tradenames	15,541	(8,646)	6,895	15,767	(7,946)	7,821
Purchased Contracts	10,689	(10,689)		10,768	(10,768)	
Covenant not to compete	429	(429)		433	(418)	15
	\$ 344,130	\$ (92,109)	\$ 252,021	\$ 349,184	\$ (87,748)	\$ 261,436

Other intangible assets amortization expense for the three months ended March 31, 2015 and 2014 totaled \$5.8 million and \$6.5 million, respectively.

Based on capitalized software and other intangible assets at March 31, 2015, estimated amortization expense for future fiscal years is as follows:

Fiscal Year Ending December 31, (in thousands)	Software Amortization	Other Intangible Assets Amortization
Remainder of 2015	\$ 34,257	\$ 16,782
2016	40,740	21,465
2017	34,020	19,965
2018	25,284	19,458
2019	22,610	18,868
2020	21,449	18,028
Thereafter	28,397	137,455



Total	\$ 206,757	\$ 252,021
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## **7. Corporate Restructuring and Other Organizational Changes**

### *2015 Activities*

During the three months ended March 31, 2015, the Company reduced its headcount as a part of its integration of its recent acquisitions. In connection with these actions, approximately \$1.3 million of termination costs were recognized in general and administrative expense in the accompanying condensed consolidated statements of operations during the three months ended March 31, 2015. The charges by segment were as follows: \$0.7 million in the Americas segment and \$0.6 million in the EMEA segment. Approximately \$1.1 million of the \$1.3 million in termination costs were paid during the first quarter of 2015. The unpaid severance liability as of March 31, 2015 totaled \$2.0 million, including balances from severance events during the 12-months ended December 31, 2014, of which \$1.5 million is expected to be paid over the next 12 months.

**Table of Contents***2014 Activities*

During the three months ended March 31, 2014, the Company reduced its headcount as a part of its integration of its recent acquisitions. In connection with these actions, approximately \$1.8 million of termination costs were recognized in general and administrative expense in the accompanying condensed consolidated statements of operations during the three months ended March 31, 2014. The charges by segment were as follows: \$1.7 million in the Americas segment, \$0.1 million in the Asia/Pacific segment and less than \$0.1 million in the EMEA segment. Approximately \$1.6 million of termination costs were paid during the first quarter of 2014. The remaining liability was paid during the year ended December 31, 2014.

The components of corporate restructuring and other reorganization activities from the 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, 2014	\$ 2,341	\$ 452	\$ 2,793
Restructuring charges incurred	1,338		1,338
Amounts paid during the period	(1,550)	(46)	(1,596)
Foreign currency translation	(128)		(128)
<b>Balance, March 31, 2015</b>	<b>\$ 2,001</b>	<b>\$ 406</b>	<b>\$ 2,407</b>

Of the \$2.0 million for unpaid severance, \$1.5 million is included in employee compensation and the remaining \$0.5 million is included in other noncurrent liabilities in the accompanying condensed consolidated balance sheet at March 31, 2015. The \$0.4 million for unpaid facilities closures is included in other current liabilities in the accompanying condensed consolidated balance sheets at March 31, 2015.

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

The Company did not repurchase any shares under the program during the three months ended March 31, 2015. 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 March 31, 2015.

**9. Loss Per Share**

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Weighted average shares outstanding:</b>		
Basic weighted average shares outstanding	115,855	115,232
Add: Dilutive effect of stock options and restricted stock awards		
Diluted weighted average shares outstanding	115,855	115,232

The diluted loss per share computation excludes 8.5 million and 9.4 million options to purchase shares, restricted share awards, and contingently issuable shares during the three months ended March 31, 2015 and 2014, respectively, as their effect would be anti-dilutive.

Common stock outstanding as of March 31, 2015 and December 31, 2014 was 116,712,055 and 115,637,804, respectively.

**10. Other, net**

Other, net is comprised of the following items:

<b>(in thousands)</b>	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Foreign currency transaction gains (losses)	\$ 3,722	\$ (949)
Other		(108)
<b>Total</b>	<b>\$ 3,722</b>	<b>\$ (1,057)</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 (loss), 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:

<b>(in thousands)</b>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenues:</b>		
Americas - United States	\$ 145,784	\$ 136,130
Americas - Other	17,966	18,639
EMEA	49,384	47,461
Asia/Pacific	19,683	19,243
	\$ 232,817	\$ 221,473
<b>Loss before income taxes:</b>		
Americas	\$ 16,109	\$ 16,281
EMEA	20,701	17,510
Asia/Pacific	10,257	5,579
Corporate	(47,759)	(49,112)
	\$ (692)	\$ (9,742)

<b>(in thousands)</b>	<b>March 31,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
<b>Total assets:</b>		
Americas - United States	\$ 1,173,723	\$ 1,210,674
Americas - Other	30,304	32,594
EMEA	446,756	487,629
Asia/Pacific	120,711	119,803
	\$ 1,771,494	\$ 1,850,700

No single customer accounted for more than 10% of the Company's consolidated revenues during the three months ended March 31, 2015 and 2014. No other country outside the United States accounted for more than 10% of the Company's consolidated revenues during the three months ended March 31, 2015 and 2014.

## 12. Income Taxes

The effective tax rate for the three months ended March 31, 2015 was a benefit of 76.6%. The earnings of the Company's foreign entities for the three months ended March 31, 2015 were \$7.7 million. The tax rates in the foreign jurisdictions in which the Company operates are less than the domestic tax rate. The effective tax rate for the three months ended March 31, 2015 was negatively impacted by losses in certain foreign jurisdictions taxed at lower rates, partially offset by profits in other foreign jurisdictions taxed at lower rates and domestic losses taxed at higher rates.

The effective tax rate for the three months ended March 31, 2014 was a benefit of 40.7%. The earnings of the Company's foreign entities for the three months ended March 31, 2014 were \$5.6 million. The tax rates in the foreign jurisdictions in which the Company operates are less than the domestic tax rate. The effective tax rate for the three months ended March 31, 2014 was negatively impacted by losses in certain foreign jurisdictions taxed at lower rates, partially offset by profits in other foreign jurisdictions taxed at lower rates and domestic losses taxed at higher rates.

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

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The amount of unrecognized tax benefits for uncertain tax positions was \$14.9 million as of March 31, 2015 and \$14.8 million as of December 31, 2014, excluding related liabilities for interest and penalties of \$2.3 million as of March 31, 2015 and December 31, 2014.

The Company believes it is reasonably possible that the total amount of unrecognized tax benefits will decrease within the next 12 months by approximately \$3.0 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 March 31, 2015.

**14. Accumulated Other Comprehensive Loss**

Activity within accumulated other comprehensive loss for the three months ended March 31, 2015 were as follows:

	<b>Unrealized gain on available-for-sale securities</b>	<b>Foreign currency translation</b>	<b>Accumulated other comprehensive loss</b>
Balance at December 31, 2014	\$ 22,977	\$ (42,860)	\$ (19,883)
Other comprehensive income (loss)	3,493	(18,482)	(14,989)
Balance at March 31, 2015	\$ 26,470	\$ (61,342)	\$ (34,872)



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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. 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 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, 2014, filed February 26, 2015. Results for the three months ended March 31, 2015, 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 more than 5,600 financial institutions, retailers, billers, and processors around the world. In addition, we provide bill presentment and payment collection services to billers such as tax authorities, higher education, utilities, and health care providers. Through our integrated suite of software products and hosted services, we deliver a broad range of solutions for electronic payments, transaction banking, mobile, branch and voice banking; fraud detection and trade finance.

In addition to our own products, we distribute, or act as a sales agent for, software developed by third parties. Our products are sold and supported through distribution networks covering three geographic regions – the Americas, EMEA and Asia/Pacific. Each distribution network has its own globally coordinated sales force and supplements its sales force with independent reseller and/or distributor networks. Our products and services are used principally by financial institutions, retailers and electronic payment processors, both in domestic and international markets.

Accordingly, our business and operating results are influenced by trends such as information technology spending levels, the growth rate of the electronic payments industry, mandated regulatory changes, and changes in the number and type of customers in the financial services industry. Our products are marketed under the ACI Worldwide and ACI Universal Payment Systems brands.

We derive a majority of our revenues from domestic operations and believe we have large opportunities for growth in international markets as well as continued expansion domestically in the United States. Refining our global infrastructure is a critical component of driving our growth. We have launched a globalization strategy which includes elements intended to streamline our supply chain and maximize expertise in several geographic locations to support a growing international customer base and competitive needs. We utilize our Irish subsidiaries to manage certain of our intellectual property rights and to oversee and manage certain international product development and commercialization efforts. We also continue to grow centers of expertise in Timisoara, Romania 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 September 2014, McKinsey predicted that electronic payment transactions would grow in volume at an annual rate of 8%, from 370 billion in 2013 to 550 billion in 2018, with varying growth rates based on the type of payment and part of the world. We leverage the growth in transaction volumes through the licensing of new systems to customers whose older systems cannot handle increased volume and through the licensing of capacity upgrades to existing customers.

**Adoption of real-time payments.** Customer expectations, from both consumers and corporate, are driving the payments world to more real-time delivery. In the UK, payments sent through the traditional ACH multi-day batch service can now be sent through the Faster Payments service giving almost immediate access to the funds and this is being considered in several countries including Australia and the US. Corporate customers expect real-time information on the status of their payments instead of waiting for an end of day report. And regulators expect banks to be monitoring key measures like liquidity in real time. ACI's focus has always been on the real-time execution of transactions and delivery of information through real-time tools such as dashboards so our experience will be valuable in addressing this trend.

**Increasing competition.** The electronic payments market is highly competitive and subject to rapid change. Our competition comes from in-house information technology departments, third-party electronic payment processors and

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

**Adoption of cloud technology.** In an effort to leverage lower-cost computing technologies some financial institutions, retailers and electronic payment processors are seeking to transition their systems to make use of cloud technology. Our market sizing exercises have indicated that cloud based payment services will grow at a faster rate than on premise payment software. Our investment in ACI On Demand provides us the grounding to deliver cloud capabilities in the future.

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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. We continue to see opportunity to offer our fraud detection solutions to help customers manage the growing levels of electronic payment fraud and compliance activity.

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

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

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

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

**Electronic payments convergence.** As electronic payment volumes grow and pressures to lower overall cost per transaction increase, financial institutions are seeking methods to consolidate their payment processing across the enterprise. We believe that the strategy of using service-oriented-architectures to allow for re-use of common

electronic payment functions such as authentication, authorization, routing and settlement will become more common.

Using these techniques, financial institutions will be able to reduce costs, increase overall service levels, enable one-to-one marketing in multiple bank channels, leverage volumes for improved pricing and liquidity, and manage enterprise risk. Our product strategy is, in part, focused on this trend, by creating integrated payment functions that can be re-used by multiple bank channels, across both the consumer and wholesale bank. While this trend presents an opportunity for us, it may also expand the competition from third-party electronic payment technology and service providers specializing in other forms of electronic payments. Many of these providers are larger than us and have significantly greater financial, technical and marketing resources.

**Mobile banking and payments.** There is a growing demand for the ability to carry out banking services or make payments using a mobile phone. Recent Accenture statistics show that 40% of people in the United States have used their phone to make a payment. Our customers have been making use of existing products to deploy mobile banking, mobile payment and 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. This is not limited to the United States, in April 2014, the European Commission voted to adopt a number of amendments with regards to the Payment Services Directive, placing further pressure on industry incumbents.

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

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

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

### **Restructuring**

During the three months ended March 31, 2015, we reduced our headcount as a part of our integration of our recent acquisitions. In connection with these actions, approximately \$1.3 million of termination costs were recognized in general and administrative expense in the accompanying condensed consolidated statements of operations during the three months ended March 31, 2015. The charges for the three months ended March 31, 2015 were \$0.7 million in the Americas segment and \$0.6 million in the EMEA segment.

### **Backlog**

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



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

Maintenance fees are assumed to exist for the duration of the license term for those contracts in which the committed maintenance term is less than the committed license term.

License, facilities management, and software hosting arrangements are assumed to renew at the end of their committed term at a rate consistent with our historical experiences.

Non-recurring license arrangements are assumed to renew as recurring revenue streams.

Foreign currency exchange rates are assumed to remain constant over the 60-month backlog period for those contracts stated in currencies other than the U.S. dollar.

Our pricing policies and practices are assumed to remain constant over the 60-month backlog period. In computing our 60-month backlog estimate, the following items are specifically not taken into account:

Anticipated increases in transaction, account, or processing volumes in customer systems.

Optional annual uplifts or inflationary increases in recurring fees.

Services engagements, other than facilities management and software hosting engagements, are not assumed to renew over the 60-month backlog period.

The potential impact of merger activity within our markets and/or customers.

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

The following table sets forth our 60-month backlog estimate, by geographic region, as of March 31, 2015 and December 31, 2014 (in millions). Dollar amounts reflect foreign currency exchange rates as of each period end.

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Americas	\$ 3,042	\$ 3,014
EMEA	805	855
Asia/Pacific	290	291
Total	\$ 4,137	\$ 4,160

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Committed	\$ 1,710	\$ 1,731
Renewal	2,427	2,429
Total	\$ 4,137	\$ 4,160

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 March 31, 2015 and December 31, 2014 (in millions). For all periods reported, approximately 80% of our 12-month backlog estimate is committed backlog and approximately 20% of our 12-month backlog estimate is renewal backlog. Dollar amounts reflect currency exchange rates as of each period end.

	<b>March 31, 2015</b>			<b>December 31, 2014</b>		
	<b>Monthly Recurring</b>	<b>Non- Recurring</b>	<b>Total</b>	<b>Monthly Recurring</b>	<b>Non- Recurring</b>	<b>Total</b>
Americas	\$ 590	\$ 51	\$ 641	\$ 589	\$ 59	\$ 648

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EMEA	139	43	182	146	45	191
Asia/Pacific	54	12	66	54	10	64
Total	\$ 783	\$ 106	\$ 889	\$ 789	\$ 114	\$ 903

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.

Table of Contents**RESULTS OF OPERATIONS**

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

**Three-Month Period Ended March 31, 2015 Compared to the Three-Month Period Ended March 31, 2014****Revenues**

	2015		\$ Change vs 2014	% Change vs 2014	2014	
	Amount	% of Total Revenue			Amount	% of Total Revenue
<b>Revenues:</b>						
Initial license fees (ILFs)	\$ 20,333	9%	\$ 8,710	75%	\$ 11,623	5%
Monthly license fees (MLFs)	19,244	8%	(4,835)	-20%	24,079	11%
License	39,577	17%	3,875	11%	35,702	16%
Maintenance	59,492	26%	(3,007)	-5%	62,499	28%
Services	23,497	10%	909	4%	22,588	10%
Hosting	110,251	47%	9,567	10%	100,684	45%
<b>Total revenues</b>	<b>\$ 232,817</b>	<b>100%</b>	<b>\$ 11,344</b>	<b>5%</b>	<b>\$ 221,473</b>	<b>100%</b>

Total revenue for the three months ended March 31, 2015, increased \$11.3 million, or 5%, as compared to the same period in 2014. The increase is the result of a \$3.9 million, or 11%, increase in license revenue, a \$9.6 million, or 10%, increase in hosting revenue and a \$0.9 million, or 4%, increase in services revenue partially offset by a \$3.0 million, or 5%, decrease in maintenance revenue. The overall increase was reduced by \$5.9 million due to the impact of foreign currencies weakening against the U.S. dollar.

The increase in total revenue for the three months ended March 31, 2015, as compared to the same period in 2014 was due to a \$9.0 million, or 6%, increase in the Americas reportable segment, a \$1.9 million, or 4%, increase in the EMEA reportable segment and a \$0.4 million, or 2%, increase in the Asia/Pacific reportable segment.

The addition of ReD contributed \$10.3 million of the increase in total revenue for the three months ended March 31, 2015, compared to the same period in 2014. Excluding the impact of the addition of ReD, total revenue for the three months ended March 31, 2015, increased \$1.0 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 volume. ACI employs measurement tools that monitor the number of transactions processed by customers and if contractually specified limits are exceeded, additional fees are charged for the overage. Capacity overages may occur at varying times throughout the term of the agreement depending on the product, the size of the customer, and the significance of

customer transaction volume growth. Depending on specific circumstances, multiple overages or no overages may occur during the term of the agreement.

*Initial License Revenue*

Initial license revenue includes license and capacity revenues that do not recur on a monthly or quarterly basis. Included in initial license revenue are license and capacity fees that are recognizable at the inception of the agreement and license and capacity fees that are recognizable at interim points during the term of the agreement, including those that are recognizable annually due to negotiated customer payment terms. Initial license revenue during the three months ended March 31, 2015, as compared to the same period in 2014, increased by \$8.7 million, or 75%. Initial license revenue increased in the Americas, EMEA and Asia/Pacific reportable segments by \$6.1 million, \$1.8 million and \$0.8 million, respectively. The increase in initial license revenue is largely attributable to the execution of several license renewal arrangements and the release of deferred revenue for several large, complex projects during the three months ended March 31, 2015, as compared to the same period in 2014. Included in the above are capacity related revenue increases of \$0.6 million, \$1.5 million and \$0.9 million in the Americas, EMEA and Asia/Pacific reportable segments, respectively, during the three months ended March 31, 2015, as compared to the same period in 2014.

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**Table of Contents***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 \$4.8 million, or 20%, during the three months ended March 31, 2015, as compared to the same period in 2014 with the Americas, EMEA, and Asia/Pacific reportable segments decreasing by \$2.1 million, \$1.3 million and \$1.4 million, respectively. The decrease in monthly license revenue is primarily due to a decrease in the amount of initial license revenue that was being recognized ratably over an extended period during the three months ended March 31, 2015, as compared to the same period in 2014. Monthly license revenue was also impacted by the recognition of cumulative monthly license fee revenue related to large, complex projects that were completed and recognized during the three months ended March 31, 2014, that did not reoccur in the same period in 2015.

*Maintenance Revenue*

Maintenance revenue includes standard and premium maintenance or any post contract support fees received from customers for the provision of product support services. Maintenance revenue during the three months ended March 31, 2015, as compared to the same period in 2014 decreased \$3.0 million, or 5%, due to the impact of foreign currencies weakening against the U.S. dollar. Maintenance revenue decreased in the EMEA reportable segment by \$3.6 million partially offset by the increase in Americas and Asia/Pacific reportable segments of \$0.1 million and \$0.5 million, respectively. The decrease in the EMEA reportable segment was a result of deferred revenue related to large, complex projects that were released during the three months ended March 31, 2014, that did not reoccur in the same period in 2015. This was partially offset by increases in maintenance revenue for the Americas and Asia/Pacific reportable segments primarily driven by increases in our customer installation base, expanded product usage from existing customers, and increased adoption of our premium 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 custom software modifications ( CSMS ). Professional services include business consultancy, technical consultancy, on-site support services, CSMS, product education, and testing services. These services include new customer implementations as well as existing customer migrations to new products or new releases of existing products. During the period in which non-essential services revenue is being deferred, direct and incremental costs related to the performance of these services are also being deferred. During the period in which essential services revenue is being deferred, direct and indirect costs related to the performance of these services are also being deferred.

Services revenue during the three months ended March 31, 2015, as compared to the same period in 2014 increased by \$0.9 million, or 4%. Implementation and professional services increased in the Americas, EMEA and Asia/Pacific reportable segments by \$0.3 million each. During the three months ended March 31, 2015, the Company recognized \$3.5 million of services revenue related to large, complex projects. These revenues were previously deferred as all revenue recognition criteria had not been met. Excluding the impact of the revenue recognized from these projects, services revenue decreased \$2.6 million, or 1%. The Company's customers continue to transition from on premise to hosted software solutions. Services work performed in relation to the Company's hosted software solutions is recognized over a longer service period and is classified as hosting revenue.

*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. Hosting revenue also includes fees paid by our clients as a part of the acquired EBPP products and Payments Risk Management products. Fees may be paid by our clients or directly by their customers and may be a percentage of the underlying transaction amount, a fixed fee per executed transaction or a monthly fee for each customer enrolled.

Hosting revenue during the three months ended March 31, 2015, as compared to the same period in 2014 increased \$9.6 million, or 10%. The increase was primarily due to additional ReD revenues of \$9.2 million.

Table of Contents**Operating Expenses**

	2015		% Change		2014	
	Amount	% of Total Revenue	\$ Change vs 2014	vs 2014	Amount	% of Total Revenue
Operating expenses:						
Cost of license	\$ 6,109	3%	\$ 373	7%	\$ 5,736	3%
Cost of maintenance, services and hosting	113,013	49%	5,126	5%	107,887	49%
Research and development	37,091	16%	(365)	-1%	37,456	17%
Selling and marketing	28,911	12%	1,002	4%	27,909	13%
General and administrative	21,575	9%	(3,541)	-14%	25,116	11%
Depreciation and amortization	19,693	8%	2,615	15%	17,078	8%
Total operating expenses	\$ 226,392	97%	\$ 5,210	2%	\$ 221,182	100%

Total operating expenses for the three months ended March 31, 2015 increased \$5.2 million, or 2%, as compared to the same period of 2014, primarily due to \$12.0 million of incremental operating expenses and integration costs related to the added operations of ReD and a \$3.0 million increase in interchange processing fees. These increases were partially offset by a \$2.8 million decrease in significant transaction related expenses and \$6.4 million due to the impact of foreign currencies weakening against the U.S. dollar.

*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 increased \$0.4 million, or 7%, in the three months ended March 31, 2015 compared to the same period in 2014 primarily due to an increase in amortization expense for acquired software.

*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 \$5.1 million, or 5%, in the three months ended March 31, 2015 compared to the same period in 2014, primarily due to \$6.0 million of incremental operating expenses related to the added operations of ReD, partially offset by \$2.0 million of lower expense due to the impact of foreign currencies weakening against the U.S. dollar. Excluding these items, maintenance, services and hosting expenses increased \$1.1 million, primarily due to a \$3.0 million increase in interchange processing fees, partially offset by a decrease in personnel and related 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.

Research and development expense decreased \$0.4 million, or 1%, in the three months ended March 31, 2015 compared to the same period in 2014, primarily due to a decrease in personnel and related expenses.

*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 us, our products and our 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 us and our 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 us, our products and personnel.

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Selling and marketing expense increased \$1.0 million, or 4%, in the three months ended March 31, 2015 compared to the same period in 2014, primarily due to an increase in personnel and related expenses.

*General and Administrative*

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

General and administrative expense decreased \$3.5 million, or 14%, in the three months ended March 31, 2015 compared to the same period in 2014. Included in general and administrative expenses for the three months ended March 31, 2015 were approximately \$0.6 million of incremental expenses related to the added operations of ReD. Those additional expenses were offset by a \$3.2 million decrease in significant transaction related expenses incurred in the three months ended March 31, 2015 compared to the same period of 2014, as well as a \$1.1 million decrease in general and administrative expenses due to the impact of foreign currencies weakening against the U.S. dollar.

*Depreciation and Amortization*

Depreciation and amortization expense increased \$2.6 million, or 15%, in the three months ended March 31, 2015 compared to the same period in 2014 primarily due to incremental expenses related to the added operations of ReD.

**Other Income and Expense**

	2015				2014	
	Amount	% of Total Revenue	\$ Change vs 2014	% Change vs 2014	Amount	% of Total Revenue
Other income (expense):						
Interest expense	\$ (10,941)	-5%	\$ (1,766)	19%	\$ (9,175)	-4%
Interest income	102	0%	(97)	-49%	199	0%
Other, net	3,722	2%	4,779	-452%	(1,057)	0%
<b>Total other income (expense)</b>	<b>\$ (7,117)</b>	<b>-3%</b>	<b>\$ 2,916</b>	<b>-29%</b>	<b>\$ (10,033)</b>	<b>-5%</b>

Interest expense for the three months ended March 31, 2015 increased \$1.8 million, or 19%, as compared to the same period in 2014 due to the increase in debt obtained in the third quarter of 2014 used to fund the acquisition of ReD.

Interest income for the three months ended March 31, 2015 decreased by \$0.1 to the same period in 2014.

Other, net consists of foreign currency losses and other non-operating items. Foreign currency gains (losses) for the three months ended March 31, 2015 and 2014 were \$3.7 million and (\$0.9) million, respectively.

*Income Taxes*

	2015	2014
Amount	Amount	Amount

		<b>% of Total Revenue</b>	<b>\$ Change vs 2014</b>	<b>% Change vs 2014</b>		<b>% of Total Revenue</b>
Income tax benefit	\$ (530)	0%	\$ 3,437	-87%	\$ (3,967)	-2%
Effective income tax rate	77%				41%	

The effective tax rate for the three months ended March 31, 2015 was a benefit of 76.6%. The earnings of our foreign entities for the three months ended March 31, 2015 were \$7.7 million. The tax rates in the foreign jurisdictions in which we operate are less than the domestic tax rate. The effective tax rate for the three months ended March 31, 2015 was negatively impacted by losses in certain foreign jurisdictions taxed at lower rates, partially offset by profits in other foreign jurisdictions taxed at lower rates and domestic losses taxed at a higher rate.

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The effective tax rate for the three months ended March 31, 2014 was a benefit of 40.7%. The earnings of our foreign entities for the three months ended March 31, 2014 were \$5.6 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 three months ended March 31, 2014 was negatively impacted by losses in certain foreign jurisdictions taxed at lower rates, partially offset by profits in other foreign jurisdictions taxed at lower rates and domestic losses taxed at a higher rate.

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

**Segment Results**

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

(in thousands)	Three Months Ended March 31,	
	2015	2014
Revenues:		
Americas	\$ 163,750	\$ 154,769
EMEA	49,384	47,461
Asia/Pacific	19,683	19,243
	\$ 232,817	\$ 221,473
Loss before income taxes:		
Americas	\$ 16,109	\$ 16,281
EMEA	20,701	17,510
Asia/Pacific	10,257	5,579
Corporate	(47,759)	(49,112)
	\$ (692)	\$ (9,742)

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.

The increase in revenue during the three months ended March 31, 2015 is primarily due to the incremental revenue from ReD operations. The Company incurred significant transaction related expenses of approximately \$2.9 million

and \$5.7 million during the three months ended March 31, 2015 and 2014, respectively. Amortization of acquisition software and intangible assets allocated to the Corporate business segment was approximately \$12.2 million and \$8.5 million during the three months ended March 31, 2015 and 2014, respectively. Interest expense on long term debt allocated to the Corporate segment was approximately \$11.0 million and \$9.2 million during the three months ended March 31, 2015 and 2014, respectively.

### **Liquidity and Capital Resources**

#### *General*

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

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As of March 31, 2015, we had \$68.5 million in cash and cash equivalents. Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less.

As of March 31, 2015, \$50.0 million of the \$68.5 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>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>(amounts in</b>	
	<b>thousands)</b>	
<b>Net cash provided by (used by):</b>		
Operating activities	\$ 49,167	\$ 15,257
Investing activities	(14,497)	(7,808)
Financing activities	(37,637)	(44,310)

Net cash flows provided by operating activities for the three months ended March 31, 2015 amounted to \$49.2 million as compared to \$15.3 million during the same period in 2014. The comparative period increase was primarily due to a smaller loss and higher receivable collections during the first three months of 2015 compared to the same period in 2014. Our current policy is to use our operating cash flow primarily for funding capital expenditures, lease payments, stock repurchases and acquisitions.

During the first three months of 2015, we used cash of \$12.5 million to purchase software, property and equipment as compared to \$7.8 million during the same period in 2014.

During the three months ended March 31, 2015, we repaid a net \$22.0 million on the revolver portion of the Credit Facility and we repaid \$19.9 million of the term portion of the Credit Facility. In addition, during the first three months of 2015, we received proceeds of \$11.1 million, including corresponding excess tax benefits, from the exercises of stock options and the issuance of common stock under our 1999 Employee Stock Purchase Plan, as amended, and used \$4.0 million for the repurchase of restricted stock and performance shares for tax withholdings. During the three months ended March 31, 2014, we used \$70.0 million to repurchase common stock. We received net proceeds of \$32.0 million from the Revolving Credit Facility and we repaid \$8.9 million of the Term Credit Facility during the three months ended March 31, 2014. In addition, during the first three months of 2014, we received proceeds of \$7.6 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 \$4.5 million for the repurchase of restricted stock and performance shares for tax withholdings.

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

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

next twelve months and foreseeable future.

*Debt*

As of March 31, 2015, we had \$22.0 million and \$528.1 million outstanding under our Revolving and Term Credit Facilities, with up to \$228.0 million of unused borrowings under the Revolving Credit Facility portion of the Credit Agreement, as amended. The amount of unused borrowings actually available varies in accordance with the terms of the agreement. The Credit Agreement contains certain affirmative and negative covenants, including limitations on the incurrence of indebtedness, asset dispositions, acquisitions, investments, dividends and other restricted payments, liens and transactions with affiliates. The Credit Agreement also contains financial covenants relating to maximum permitted leverage ratio and the minimum fixed charge coverage ratio. The facility does not contain any subjective acceleration features and does not have any required payment or principal reduction schedule and is included as a long-term liability in our condensed consolidated balance sheet. At March 31, 2015 (and at all times during this period) we were in compliance with our debt covenants. The interest rate in effect at March 31, 2015 was 2.68%.

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

*Stock Repurchase Program*

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

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

We did not repurchase any shares under the program during the three months ended March 31, 2015. 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 March 31, 2015.

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

**Contractual Obligations and Commercial Commitments**

For the three months ended March 31, 2015, 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, 2014.

	Total	Payments due by Period			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
<b>Contractual Obligations</b>					
Revolver portion of Credit Facility	22,000			22,000	
Revolver portion of Credit Facility interest (1)	2,014	590	1,179	245	
Total	\$ 24,014	\$ 590	\$ 1,179	\$ 22,245	\$



(1) Based upon the Credit Facility debt outstanding and interest rate in effect at March 31, 2015 of 2.68%.

We are unable to reasonably estimate the ultimate amount or timing of settlement of our reserves for income taxes under Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 740, *Income Tax*.

The liability for unrecognized tax benefits at March 31, 2015 is \$14.9 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.

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

Revenue Recognition

Allowance for Doubtful Accounts

Business Combinations

Intangible Assets and Goodwill

Stock-Based Compensation

Accounting for Income Taxes

During the three months ended March 31, 2015, there were no significant changes to our critical accounting policies and estimates. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended December 31, 2014, filed on February 26, 2015, for a more complete discussion of our critical accounting policies and estimates.

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

Excluding the impact of changes in interest rates and the uncertainty in the global financial markets, there have been no material changes to our market risk for the three months ended March 31, 2015. We conduct business in all parts of the world and are thereby exposed to market risks related to fluctuations in foreign currency exchange rates. The U.S. dollar is the single largest currency in which our revenue contracts are denominated. Thus, any decline in the value of local foreign currencies against the U.S. dollar results in our products and services being more expensive to a potential foreign customer, and in those instances where our goods and services have already been sold, may result in the receivables being more difficult to collect. Additionally, any decline in the value of the U.S. dollar in jurisdictions where the revenue contracts are denominated in U.S. dollars and operating expenses are incurred in local currency will have an unfavorable impact to operating margins. We at times enter into revenue contracts that are denominated in the country's local currency, principally in Australia, Canada, the United Kingdom and other European countries. This practice serves as a natural hedge to finance the local currency expenses incurred in those locations. We have not entered into any foreign currency hedging transactions. We do not purchase or hold any derivative financial instruments for the purpose of speculation or arbitrage.

The primary objective of our cash investment policy is to preserve principal without significantly increasing risk. Based on our cash investments and interest rates on these investments at March 31, 2015, 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 \$850.0 million of debt outstanding at March 31, 2015 with \$300.0 million in Senior Notes and \$550.0 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 2.68% at March 31, 2015. 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 \$1.5 million.

#### **Item 4. CONTROLS AND PROCEDURES**

##### *Disclosure Controls and Procedures*

Our management, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report, March 31, 2015. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of March 31, 2015.

##### *Changes in Internal Control over Financial Reporting*

Our management, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer evaluated any change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) during the Company's quarter ended March 31, 2015, and determined that there were no 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, 2014. 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 March 31, 2015:

<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>
January 1, 2015 through January 31, 2015		\$		\$ 138,325,000
February 1, 2015 through February 28, 2015	196,169(1)	20.45		\$ 138,325,000
March 1, 2015 through March 31, 2015	376(1)	21.43		\$ 138,325,000
Total	196,545	\$ 20.45		

- (1) Pursuant to our 2005 Incentive Plan, we granted restricted share awards ( RSAs ). These awards have requisite service periods of either three or four years and vest in increments of either 33% or 25% on the anniversary dates of the grants. Under each arrangement, stock is issued without direct cost to the employee. During the three months ended March 31, 2015, 548,671 and 999 shares of the LTIPs and RSAs vested. We withheld 196,169 and 376 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 intended to use existing cash and cash equivalents to fund these repurchases. Our Board of Directors approved an increase of \$30 million, \$100 million, and \$52.1 million to the stock repurchase program in May 2006, March 2007 and February 2012, respectively, bringing the total of the approved program to \$262.1 million. On September 13, 2012, our Board of Directors approved the repurchase of up to 7,500,000 shares of our common stock, or up to \$113.0 million, in place of the remaining repurchase amounts previously authorized. In July, 2013, our Board of Directors approved an additional \$100 million for stock repurchases. On February 24, 2014, our Board of Directors approved an additional \$100 million for the stock repurchase program. Approximately \$138.3 million remains available at December 31, 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:

**Exhibit**

<b>No.</b>	<b>Description</b>
3.01 (1)	2013 Amended and Restated Certificate of Incorporation of the Company
3.02 (2)	Amended and Restated Bylaws of the Company
4.01 (3)	Form of Common Stock Certificate
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.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

- \* This certification is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.
- (1) Incorporated herein by reference to Exhibit 3.1 to the registrant's current report on Form 8-K filed June 24, 2013.
  - (2) Incorporated herein by reference to Exhibit 3.2 to the registrant's current report on Form 8-K filed December 18, 2008.
  - (3) Incorporated herein by reference to Exhibit 4.01 to the registrant's Registration Statement No. 33-88292 on Form S-1.



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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: April 30, 2015

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

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

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