

ACI WORLDWIDE, INC.  
Form 10-Q  
November 09, 2012  
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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, 2012

or

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

For the transition period from

Commission File Number 0-25346

**ACI WORLDWIDE, INC.**

(Exact name of registrant as specified in its charter)

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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>47-0772104</b> (I.R.S. Employer Identification No.)
<b>3520 Kraft Rd, Suite 300</b>  <b>Naples, FL 34105</b> (Address of principal executive offices, including zip code)	<b>(239) 403-4600</b> (Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of the Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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

As of November 5, 2012, there were 39,384,059 shares of the registrant's common stock outstanding.

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

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

	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 87,682	\$ 197,098
Billed receivables, net of allowances of \$8,020 and \$4,843, respectively	135,094	93,355
Accrued receivables	36,325	6,693
Deferred income taxes, net	42,987	25,944
Recoverable income taxes	9,008	
Prepaid expenses	15,733	9,454
Other current assets	10,677	9,320
<b>Total current assets</b>	<b>337,506</b>	<b>341,864</b>
Property and equipment, net	40,373	20,479
Software, net	133,603	22,598
Goodwill	505,787	214,144
Other intangible assets, net	125,552	18,343
Deferred income taxes, net	45,287	13,466
Other noncurrent assets	32,694	33,748
<b>TOTAL ASSETS</b>	<b>\$ 1,220,802</b>	<b>\$ 664,642</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 27,470	\$ 11,532
Accrued employee compensation	37,808	27,955
Current portion of term credit facility	15,625	
Deferred revenue	169,190	132,995
Income taxes payable		10,427
Alliance agreement liability	20,667	20,667
Accrued and other current liabilities	34,389	23,481
<b>Total current liabilities</b>	<b>305,149</b>	<b>227,057</b>
<b>Noncurrent liabilities</b>		
Deferred revenue	44,156	32,721
Note payable under term credit facility	175,000	
Note payable under revolving credit facility	194,000	75,000
Other noncurrent liabilities	25,264	12,534
<b>Total liabilities</b>	<b>743,569</b>	<b>347,312</b>
Commitments and contingencies (Note 15)		
<b>Stockholders equity</b>		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; no shares issued and outstanding at September 30, 2012 and December 31, 2011	232	204

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Common stock, \$0.005 par value; 70,000,000 shares authorized; 46,606,796 and 40,821,516 shares issued at September 30, 2012 and December 31, 2011, respectively		
Common stock warrants		24,003
Treasury stock, at cost, 7,231,577 and 7,178,427 shares outstanding at September 30, 2012 and December 31, 2011, respectively	(188,545)	(163,411)
Additional paid-in capital	531,331	322,654
Retained earnings	150,323	151,141
Accumulated other comprehensive loss	(16,108)	(17,261)
<b>Total stockholders equity</b>	<b>477,233</b>	<b>317,330</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 1,220,802</b>	<b>\$ 664,642</b>

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

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

(unaudited and in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Revenues:</b>				
Software license fees	\$ 39,560	\$ 39,249	\$ 127,115	\$ 129,058
Maintenance fees	47,920	36,928	141,014	109,193
Services	35,811	23,770	92,551	57,814
Software hosting fees	31,771	12,202	81,804	33,993
<b>Total revenues</b>	<b>155,062</b>	<b>112,149</b>	<b>442,484</b>	<b>330,058</b>
<b>Expenses:</b>				
Cost of software license fees (1)	5,874	3,763	16,624	11,341
Cost of maintenance, services, and hosting fees (1)	51,944	29,996	148,550	91,421
Research and development	34,213	22,481	100,173	69,395
Selling and marketing	20,448	19,814	64,324	60,899
General and administrative	24,533	19,068	87,131	51,234
Depreciation and amortization	9,742	5,759	26,845	16,580
<b>Total expenses</b>	<b>146,754</b>	<b>100,881</b>	<b>443,647</b>	<b>300,870</b>
<b>Operating income (loss)</b>	<b>8,308</b>	<b>11,268</b>	<b>(1,163)</b>	<b>29,188</b>
<b>Other income (expense):</b>				
Interest income	222	205	705	639
Interest expense	(2,620)	(406)	(7,386)	(1,423)
Other, net	(1,430)	(46)	(899)	(88)
<b>Total other income (expense)</b>	<b>(3,828)</b>	<b>(247)</b>	<b>(7,580)</b>	<b>(872)</b>
<b>Income (loss) before income taxes</b>	<b>4,480</b>	<b>11,021</b>	<b>(8,743)</b>	<b>28,316</b>
Income tax expense (benefit)	(1,175)	482	(7,925)	6,355
<b>Net income (loss)</b>	<b>\$ 5,655</b>	<b>\$ 10,539</b>	<b>\$ (818)</b>	<b>\$ 21,961</b>
<b>Income (loss) per share information</b>				
Weighted average shares outstanding				
Basic	39,126	33,495	38,323	33,420
Diluted	40,712	34,305	38,323	34,182
<b>Income (loss) per share</b>				
Basic	\$ 0.14	\$ 0.31	\$ (0.02)	\$ 0.66
Diluted	\$ 0.14	\$ 0.31	\$ (0.02)	\$ 0.64

(1) The cost of software license fees excludes charges for depreciation but includes amortization of purchased and developed software for resale. The cost of maintenance, services, and hosting fees excludes charges for depreciation. The accompanying notes are an integral part of the condensed consolidated financial statements.



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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Net income (loss)</b>	\$ 5,655	\$ 10,539	\$ (818)	\$ 21,961
<b>Other comprehensive income (loss):</b>				
Unrealized gain on available-for-sale securities		151	964	151
Reclassification of unrealized gain to a realized gain on available-for-sale securities			(1,557)	
Foreign currency translation adjustments	3,381	(5,265)	1,746	(908)
<b>Total other comprehensive income (loss):</b>	3,381	(5,114)	1,153	(757)
<b>Comprehensive income</b>	\$ 9,036	\$ 5,425	\$ 335	\$ 21,204

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



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## ACI WORLDWIDE, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(unaudited and in thousands)

	Common Stock	Common Stock Warrants	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
<b>Balance as of January 1, 2012</b>	\$ 204	\$ 24,003	\$ (163,411)	\$ 322,654	\$ 151,141	\$ (17,261)	\$ 317,330
Net loss					(818)		(818)
Other comprehensive income						1,153	1,153
Issuance of 5,785,280 shares of common stock for acquisition of S1 Corporation	28			204,828			204,856
Issuance of 95,500 shares from treasury stock for for acquisition of S1 Corporation			2,174				2,174
Repurchase of 1,437,692 shares of common stock			(57,836)				(57,836)
Issuance of 361,470 shares from treasury stock for common stock warrant exercises		(2,769)	9,404	5,231			11,866
Cash settlement of common stock warrants		(21,234)		(8,362)			(29,596)
Stock-based compensation				11,661			11,661
Shares issued and forfeited, net, under stock plans including income tax benefits			24,066	(4,681)			19,385
Repurchase of restricted stock for tax withholdings			(2,942)				(2,942)
<b>Balance as of September 30, 2012</b>	\$ 232	\$	\$ (188,545)	\$ 531,331	\$ 150,323	\$ (16,108)	\$ 477,233

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

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

(unaudited and in thousands)

	<b>For the Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (818)	\$ 21,961
Adjustments to reconcile net income (loss) to net cash flows from operating activities		
Depreciation	9,688	5,529
Amortization	27,145	15,813
Provision for doubtful accounts receivable	(1,266)	613
Deferred income taxes	(7,767)	7,098
Stock-based compensation expense	11,661	6,691
Excess tax benefit of stock options exercised	(3,378)	(1,326)
Other	317	333
Changes in operating assets and liabilities, net of impact of acquisitions:		
Billed and accrued receivables	(11,265)	8,016
Other current and noncurrent assets	3,480	2,179
Accounts payable	16	(4,658)
Accrued employee compensation	(26,289)	133
Accrued liabilities	(9,967)	(1,524)
Current income taxes	(11,546)	(6,424)
Deferred revenue	9,654	4,184
Other current and noncurrent liabilities	(2,407)	(6,383)
<b>Net cash flows from operating activities</b>	<b>(12,742)</b>	<b>52,235</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(10,032)	(9,310)
Purchases of software and distribution rights	(3,558)	(6,590)
Alliance technical enablement expenditures		(256)
Acquisition of businesses, net of cash acquired	(325,232)	(16,850)
Purchase of available-for-sale equity securities		(10,000)
Other investments	(1,046)	
<b>Net cash flows from investing activities</b>	<b>(339,868)</b>	<b>(43,006)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	1,028	968
Proceeds from exercises of stock options	15,059	2,780
Excess tax benefit of stock options exercised	3,378	1,326
Repurchases of common stock	(57,836)	
Repurchase of restricted stock for tax withholdings	(2,942)	(678)
Proceeds from exercises of common stock warrants	11,866	
Cash settlement of common stock warrants	(29,596)	
Proceeds from revolver portion of credit agreement	119,000	75,000
Proceeds from term portion of credit agreement	200,000	
Repayment of revolving credit facility		(75,000)
Repayment of term portion of credit agreement	(9,375)	
Payments for debt issuance costs	(1,094)	
Payments on debt and capital leases	(5,783)	(3,270)

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Net cash flows from financing activities	243,705	1,126
Effect of exchange rate fluctuations on cash	(511)	(1,965)
Net increase (decrease) in cash and cash equivalents	(109,416)	8,390
Cash and cash equivalents, beginning of period	197,098	171,310
Cash and cash equivalents, end of period	\$ 87,682	\$ 179,700
Supplemental cash flow information		
Income taxes paid, net	\$ 21,434	\$ 16,538
Interest paid	\$ 5,957	\$ 1,219
The accompanying notes are an integral part of the condensed consolidated financial statements.		

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

The unaudited condensed consolidated financial statements include the accounts of ACI Worldwide, Inc. and its wholly-owned subsidiaries (collectively, the Company). All intercompany balances and transactions have been eliminated. The condensed consolidated financial statements as of September 30, 2012, and for the three and nine months ended September 30, 2012 and 2011, are unaudited and reflect all adjustments of a normal recurring nature, which are, in the opinion of management, necessary for a fair presentation, in all material respects, of the financial position and operating results for the interim periods. The condensed consolidated balance sheet as of December 31, 2011 is derived from the audited financial statements.

The condensed consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2011, filed on February 22, 2012. Results for the three and nine months ended September 30, 2012 are not necessarily indicative of results that may be attained in the future.

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

**Revenue***Vendor-Specific Objective Evidence*

Certain of the Company's software license arrangements include post contract customer support (maintenance or PCS) terms that fail to achieve vendor-specific objective evidence (VSOE) of fair value due to non-substantive renewal periods, or contain a range of possible non-substantive PCS renewal amounts. As a result of the maturation of certain retail payment engine products, including BASE24, a higher number of software license arrangements in the Americas and Europe Middle East and Africa (EMEA) operating segments fail to achieve VSOE of fair value for PCS 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 fees, maintenance fees and services, if applicable.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Software license fees	\$ 9,599	\$ 11,954	\$ 31,057	\$ 53,794
Maintenance fees	3,312	3,047	11,581	11,859
Services	118	447	750	906
Total	\$ 13,029	\$ 15,448	\$ 43,388	\$ 66,559

**Adoption of New Accounting Pronouncement**

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On January 1, 2012, the Company adopted 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ( ASU 2011-05 ) which requires presentation of the components of net income (loss) and other comprehensive income (loss) either as one continuous statement or as two consecutive statements and eliminates the option to present components of other comprehensive income (loss) as part of the statement of changes in stockholders' equity. The standard does not change the items that must be reported in other comprehensive income (loss), how such items are measured or when they must be reclassified to net income (loss). Also, in December of 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12).

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On January 1, 2012, the Company adopted 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ( ASU 2011-04 ). The amendments in ASU 2011-04 change the wording used to describe many of the requirements in U.S. Generally Accepted Accounting Principles ( U.S. GAAP ) for measuring fair value and for disclosing information about fair value measurements. Some of the amendments clarify FASB 's intent about the application of existing fair value measurement and disclosure requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements.

**2. Acquisitions***Distra Pty Ltd*

On September 18, 2012, the Company closed the acquisition of 100% of Distra Pty Ltd ( Distra ). The Distra Universal Payments Platform delivers a fault-tolerant, Service-Oriented Architecture (SOA)-based payments platform that helps to significantly reduce the risk and cost of payments transformation without compromising security, performance, scalability and reliability. The integration of the Company 's and Distra 's technologies will enable financial institutions, processors and retailers to enhance the flexibility and performance of their existing payments infrastructure to address market needs, such as mobile, social channels and payment service hubs. In addition, this acquisition will enable the Company 's payment products to integrate more tightly with customers ' enterprise architectures, reducing their total cost of ownership.

The aggregate purchase price of Distra of \$49.8 million was paid in cash. In addition, the company paid \$0.5 million in transaction fees in relation to the acquisition of Distra, which are included in general and administrative expense in the accompanying condensed consolidated statement of operations. 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 Company has engaged a third-party firm to assist the Company in determining the fair value certain intangibles; however, due to the close proximity of the acquisition date to quarter-end, this has not yet been completed. The Company 's management has estimated the total intangibles balance, which is expected to be primarily intellectual property and to a lesser extent customer relationships, and goodwill based upon its preliminary analyses. Accordingly, the purchase price allocations are preliminary and are subject to future adjustments during the maximum one-year allocation period. In connection with the acquisition, the Company recorded the following amounts based upon its preliminary purchase price allocation as of the date of the acquisition, which are subject to completion of the valuation and other analyses (in thousands, except weighted-average useful lives):

	Amount	Weighted-Average Useful Lives
Total current assets acquired:	\$ 1,412	
Noncurrent assets:		
Goodwill	20,166	
Software	19,874	5 -10 years
Deferred income taxes, net	11,355	
Other noncurrent assets	97	
<b>Total assets acquired</b>	<b>52,904</b>	
Current liabilities acquired:	3,154	
<b>Net assets acquired</b>	<b>\$ 49,750</b>	

Factors contributing to the purchase price that resulted in the goodwill (which is not tax deductible) include the acquisition of management, technical, and services personnel with the skills to support products of the Company in addition to the enhanced focus on product innovation and enabling cross-selling opportunities when coupled with the Company 's suite of payments products. Pro forma results are not presented because they are not material.

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### *North Data Uruguay S.A.*

On May 24, 2012, the Company closed the acquisition of North Data Uruguay S.A. ( North Data ). North Data had been a long-term partner of the Company, serving customers in South America in sales, service and support functions. The addition of the North Data team to the Company reinforces its commitment to serve the Latin American market.

The aggregate purchase price of North Data was \$4.6 million, which included cash acquired of \$0.1 million. 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, including \$3.5 million of goodwill and \$2.2 million of customer relationships with an weighted-average useful life of 12.6 years. The allocation of purchase price is based upon certain external valuations and other analyses that have not been completed as of the date of this filing including, but not limited to, deferred revenue and certain tax accounts. Accordingly, the purchase price allocations are preliminary and are subject to future adjustments during the maximum one-year allocation period.

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

### *S1 Corporation*

On February 10, 2012, the Company completed the exchange offer for S1 Corporation and all its subsidiaries. The acquisition was effectively closed on February 13, 2012 for approximately \$368.7 million in cash and 5.9 million shares of the Company's stock, including 95,500 shares reissued from Treasury stock, resulting in a total purchase price of \$587.3 million (the Merger ). The combination of the Company and S1 will create a leader in the global enterprise payments industry. The combined company will have enhanced scale, breadth, and additional capabilities, as well as a complementary suite of products that will better serve the entire spectrum of financial institutions, processors and retailers.

Under the terms of the transaction, S1 stockholders could elect to receive \$10.00 in cash or 0.3148 shares of the Company's stock for each S1 share they owned, subject to proration, such that in the aggregate 33.8% of S1 shares were exchanged for the Company's shares and 66.2% were exchanged for cash. No S1 shareholders received fractional shares of the Company's stock. Instead, the total number of shares that each holder of S1 common stock received was rounded down to the nearest whole number, and the Company paid cash for any resulting fractional share determined by multiplying the fraction by \$34.14.

Each outstanding option to acquire S1 common stock was canceled and terminated at the effective time of the Merger and converted into the right to receive the merger consideration with respect to the number of shares of S1 common stock that would have been issuable upon a net exercise of such option, assuming the market value of the S1 common stock at the time of such exercise was equal to the value of the merger consideration as of the close of trading on the day immediately prior to the effective date of the Merger. Any outstanding option with a per share exercise price that was greater than or equal to such amount was cancelled and terminated and no payment was made with respect thereto. In addition, each S1 restricted stock unit award outstanding immediately prior to the effective time of the Merger was fully vested and cancelled, and each holder of such awards became entitled to receive the Merger Consideration for each share of S1 common stock into which the vested portion of the awards would otherwise have been converted. Each S1 restricted stock award was vested immediately prior to the effective time of the Merger and was entitled to receive the Merger Consideration.

Additionally, the Company had previously purchased 1,107,000 shares of S1 stock that were held as available-for-sale securities prior to the acquisition date. The fair value of those shares as of February 13, 2012, has been included in the total purchase price with the previously unrealized gain of approximately \$1.6 million being recognized as a gain and included in other income (expense) in the statements of operations for the nine months ended September 30, 2012.

The Company used \$73.7 million of its cash balance for the acquisition in addition to \$295.0 million of senior bank financing arranged through Wells Fargo Securities, LLC. See Note 3, *Debt*, for terms of the financing arrangement.

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 purchase price is based upon certain external valuations and other analyses that have not been completed as of the date of this filing, including, but not limited to, certain tax matters. Accordingly, the purchase price allocations are preliminary and are subject to future adjustments during the maximum one-year allocation period.





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The purchase price of S1 Corporation's common stock as of the date of acquisition was comprised of (in thousands):

	<b>Amount</b>
Cash payments to S1 shareholders	\$ 365,918
Issuance of ACI common stock	204,857
Reissuance of treasury stock	2,174
Cash payments for noncompete agreements	2,778
S1 shares previously held as available-for-sale securities	11,557
 Total Purchase Price	 \$ 587,284

The Company incurred approximately \$6.1 million in transaction related expenses during the nine months ended September 30, 2012, including fees to the investment bank, legal and other professional fees, which are included in general and administrative expenses in the accompanying condensed consolidated statement of operations.

S1 contributed an estimated \$47.8 million and \$113.4 million in revenue during the three and nine months ended September 30, 2012. S1 contributed an estimated \$0.9 million and \$(11.4) million in operating income (loss) to the three and nine months ended September 30, 2012, which includes non-recurring severance and accelerated share-based compensation expense related to the integration activities. Certain revenue and expenses have been estimated that are no longer separately identifiable due to integration activities.

In connection with the acquisition, the Company recorded the following amounts based upon its preliminary purchase price allocation during the nine months ended September 30, 2012, which are subject to completion of the valuation and other analyses (in thousands, except weighted-average useful lives):

	<b>Amount</b>	<b>Weighted-Average Useful Lives</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 97,748	
Billed and accrued receivables, net	65,329	
Other current assets	19,933	
 Total current assets acquired	 183,010	
<b>Noncurrent assets:</b>		
Property and equipment	18,440	
Goodwill	265,986	
Software	87,517	5 -10 years
Customer relationships	108,690	10 -20 years
Trademarks	4,500	3 years
Covenant not to compete	360	3 years
Other noncurrent assets	25,641	
 Total assets acquired	 694,144	
<b>Current liabilities:</b>		
Deferred revenue	34,671	
Accrued employee compensation	34,689	
Other current liabilities	28,416	
 Total current liabilities acquired	 97,776	

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Noncurrent liabilities acquired	9,084
<b>Total liabilities acquired</b>	<b>106,860</b>
Net assets acquired	\$ 587,284

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During the three months ended September 30, 2012, the Company made adjustments to the preliminary purchase price allocation as additional information became available to property and equipment, software, other noncurrent assets, current deferred revenue, other current and noncurrent liabilities. These adjustments and any resulting adjustments to the 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 global product capabilities, and complementary products and customers.

The pro forma financial information in the table below presents the combined historical results of the combined Company as if the acquisition had occurred January 1, 2011 (in thousands, except per share data). The pro forma information is shown for illustrative purposes only and is not necessarily indicative of future results of operations of the Company or results of operations of the Company that would have actually occurred had the transactions been in effect for the periods presented. This pro forma information is not intended to represent or be indicative of actual results had the acquisition occurred as of the beginning of each period, nor is it necessarily indicative of future results and does not reflect potential synergies, integration costs, or other such costs or savings. Certain pro forma adjustments have been made to net income (loss) for three months and nine months ended September 30, 2012 and 2011 to give effect to estimated adjustments to expenses to remove the amortization on eliminated S1 historical identifiable intangible assets and added amortization expense for the value of identified intangibles acquired in the acquisition (primarily acquired software, customer relationships, trade names, and covenants not to compete), adjustments to interest expense to reflect the elimination of preexisting S1 debt and added estimated interest expense on the Company's Term Credit Facility and additional borrowings on the Revolving Credit Facility and to eliminate share-based compensation expense for eliminated positions. Additionally, certain one-time transaction expenses that are a direct result of the acquisition have been excluded from the three months and nine months ended September 30, 2012 and 2011.

	Pro Forma Results of Operations for the Three Months Ended September 30,		Pro Forma Results of Operations for the Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Total Revenues</b>	159,944	173,688	489,775	512,762
<b>Net Income</b>	11,738	8,281	17,904	15,523
<b>Income per share</b>				
Basic	\$ 0.30	\$ 0.21	\$ 0.47	\$ 0.39
Diluted	\$ 0.29	\$ 0.21	\$ 0.45	\$ 0.39

**3. Debt***Credit Facility*

On November 10, 2011, the Company entered into the Credit Agreement (the "Credit Agreement") 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. The Credit Agreement consists of a five-year \$250 million senior secured revolving credit facility (the "Revolving Credit Facility"), which includes a sublimit for the issuance of standby letters of credit and a sublimit for swingline loans, and a five-year \$200 million senior secured term loan facility (the "Term Credit Facility" and, together with the Revolving Credit Facility, the "Credit Facility"). The Credit Agreement also allows the Company to request optional incremental term loans and increases in the revolving commitment. As of September 30, 2012, the Company had up to \$56 million of unused borrowings under the Revolving Credit Facility portion of the Credit Agreement. The amount of unused borrowings actually available varies in accordance with the terms of the agreement.

On November 10, 2011, the Company borrowed an aggregate principal amount of \$75 million under the Revolving Credit Facility and did not borrow any amount under the Term Credit Facility. On February 10, 2012, the Company borrowed an additional \$95.0 million under the Revolving Credit Facility and \$200.0 million under the term Credit Facility, bringing the total aggregate principal balance to \$370.0 million. These additional borrowings were in connection with the S1 acquisition that was completed on February 13, 2012. In connection with obtaining the credit agreement, the Company incurred debt issue costs of \$12.3 million, \$11.8 million of which were paid at December 31, 2011 with the remainder paid as of September 30, 2012.

On September 21, 2012, the Company borrowed an additional \$24.0 million under the Revolving Credit Facility to partially fund the repurchase of the majority of its outstanding common stock warrants held by International Business Machines ("IBM"). For further discussion on the common

stock warrants see Note 16, International Business Machines Corporation Alliance Agreement .

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Borrowings under the Credit Facility bear interest at a rate per annum equal to, at the Company's option, either (a) a base rate determined by reference to the highest of (1) the rate of interest per annum publicly announced by the Administrative Agent as its Prime Rate, (2) the federal funds effective rate plus 1/2 of 1% and (3) a LIBOR based rate determined by reference to the costs of funds for U.S. dollar deposits for a one-month interest period adjusted for certain additional costs plus 1% or (b) a LIBOR based rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs, in each case plus an applicable margin. The applicable margin for borrowings under the Revolving Credit Facility is, based on the calculation of the applicable consolidated total leverage ratio, between 0.50% to 1.50% with respect to base rate borrowings and between 1.50% and 2.50% with respect to LIBOR based borrowings. Interest is due and payable monthly. The interest rate in effect at September 30, 2012 was 2.22%.

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.

On September 11, 2012, the Company and certain of its subsidiaries entered into a First Amendment and Consent and Waiver No. 3 to the Credit Agreement (the "Amendment") with Wells Fargo as administrative agent and as a lender, and the other lenders (the "Lenders") party to the Credit Agreement, dated November 10, 2011, by and among the Company, Wells Fargo and the Lenders. The Amendment, among other things, permits the Company, subject to certain conditions, to (i) purchase, redeem or otherwise acquire or retire for value up to 2,500,000 shares of capital stock of the Company, (ii) complete certain reorganization and investment activities relating to the integration of S1 Corporation and (iii) acquire non-guarantor subsidiaries, provided that such acquisitions do not exceed \$75.0 million for any acquisition (or series of related acquisitions) and, subject to certain exceptions, \$200.0 million when taken together with all non-guarantor subsidiaries acquired after September 11, 2012. This amendment does not change the amount of debt outstanding, available, payment schedule or interest rate. The company incurred additional financing costs of \$0.5 million related to the Amendment which were paid during the three months ended September 30, 2012.

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.

The Company paid \$9.4 million in principal payments for the Term Credit Facility during the nine months ended September 30, 2012. The following payments are expected for the Term Credit Facility over the subsequent five year period:

	Payments due by Period (amounts in thousands)				
	Remainder of 2012	2013	2014	2015	2016
<b>Term Credit Facility</b>	\$ 4,375	\$ 17,500	\$ 26,250	\$ 30,000	\$ 112,500

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

The Credit Facility will mature on the five-year anniversary of the closing date for the Credit Facility. The Revolving Credit Facility will not amortize and the Term Credit Facility will amortize, with principal payable in consecutive quarterly installments. The Company's obligations and the obligations of the guarantors under the Guaranty and cash management arrangements entered into with lenders under the Credit Facility (or affiliates thereof) are secured by first-priority security interests in substantially all assets of the Company and any guarantor, including 100% of the capital stock of ACI Corporation and each domestic subsidiary of the Company, each domestic subsidiary of any guarantor and 65% of the voting capital stock of each foreign subsidiary of the Company that is directly owned by the Company or a guarantor, and in each case, is subject to certain exclusions set forth in the credit documentation governing the Credit Facility.

The Credit Agreement also contains certain customary affirmative covenants and events of default. If an event of default, as specified in the Credit Agreement, shall occur and be continuing, the Company may be required to repay all amounts outstanding under the Credit Facility. As of September 30, 2012, and at all times during the period, the Company was in compliance with its debt covenants.

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During the nine months ended September 30, 2012, the Company financed the five-year license agreement for certain internally-used software for \$14.8 million with annual payments due in April through 2016. As of September 30, 2012, \$2.9 million was recorded in accrued and other current liabilities and \$9.3 million in other noncurrent liabilities in the accompanying condensed consolidated balance sheet.

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

Under the Company's 1999 Employee Stock Purchase Plan, as amended (the "ESPP"), a total of 1,500,000 shares of the Company's common stock have been reserved for issuance to eligible employees. Participating employees are permitted to designate up to the lesser of \$25,000 or 10% of their annual base compensation for the purchase of common stock under the ESPP. Purchases under the ESPP are made one calendar month after the end of each fiscal quarter. The price for shares of common stock purchased under the ESPP is 85% of the stock's fair market value on the last business day of the three-month participation period. Shares issued under the ESPP during the nine months ended September 30, 2012 and 2011 totaled 30,131 and 30,021, respectively.

*Stock Incentive Plans - Active Plans*

On June 14, 2012, the stockholders of the Company approved the Second Amendment to the 2005 Incentive Plan which increased the number of shares authorized for issuance under the plan from 5,000,000 to 7,750,000.

*Stock-Based Payments*

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

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value of In-the-Money Options
Outstanding as of December 31, 2011	3,490,056	\$ 23.28		
Granted	108,350	41.28		
Exercised	(777,018)	19.38		
Forfeited	(94,230)	21.60		
Expired	(4,000)	10.19		
Outstanding as of September 30, 2012	2,723,158	\$ 25.18	5.02	\$ 46,605,039
Exercisable as of September 30, 2012	1,694,050	\$ 24.37	4.36	\$ 30,310,213

As of September 30, 2012, the Company expects that 94.5% of the options will vest over the vesting period.

The weighted-average grant date fair value of stock options granted during the nine months ended September 30, 2012 and 2011 was \$22.89 and \$13.69, respectively. The Company issued treasury shares for the exercise of stock options during the nine months ended September 30, 2012 and 2011. The total intrinsic value of stock options exercised during the nine months ended September 30, 2012 and 2011 was \$16.0 million and \$4.5 million, respectively.

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The fair value of options granted during the three and nine months ended September 30, 2012 and the nine months ended September 30, 2011 was estimated on the date of grant using the Black-Scholes option-pricing model, a pricing model acceptable under U.S. GAAP, with the following weighted-average assumptions:

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Expected life (years)	5.55	8.01	5.50
Interest rate	0.7%	1.3%	1.6%
Volatility	51.1%	52.4%	50.8%
Dividend yield			

No options were granted during the three months ended September 30, 2011. 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.

A summary of nonvested long-term incentive program performance share awards ( LTIP performance shares ) outstanding as of September 30, 2012 and changes during the period are as follows:

Nonvested LTIP Performance Shares	Number of Shares at Expected Attainment	Weighted- Average Grant Date Fair Value
Nonvested as of December 31, 2011	931,571	\$ 23.33
Granted	11,987	39.25
Forfeited	(76,196)	23.50
Nonvested as of September 30, 2012	867,362	\$ 23.53

A summary of nonvested restricted share awards ( RSAs ) as of September 30, 2012 and changes during the period are as follows:

Nonvested Restricted Share Awards	Number of Restricted Share Awards	Weighted-Average Grant Date Fair Value
Nonvested as of December 31, 2011	100,023	\$ 19.29
Granted	56,389	44.81
Vested	(74,482)	18.15
Forfeited	(7,875)	16.78
Nonvested as of September 30, 2012	74,055	\$ 40.14

During the nine months ended September 30, 2012, 74,482 shares of the RSAs vested. The Company withheld 22,284 of those shares to pay the employees' portion of the minimum payroll withholding taxes.

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

In relation to the acquisition of S1 Corporation discussed in Note 2, the Company amended the S1 Corporation 2003 Stock Incentive Plan, as previously amended and restated (the S1 2003 Incentive Plan ). Restricted share awards ( RSAs ) were granted to S1 employees by S1 Corporation

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prior to the acquisition by the Company in accordance with the terms of the Transaction Agreement ( Transaction RSAs ) under the S1 2003 Incentive Plan. These are the only equity awards currently outstanding under the S1 2003 Incentive Plan and no further grants will be made.



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Under the terms of the Transaction Agreement with S1, upon the acquisition, the S1 Transaction RSAs were converted to RSAs of the Company's stock. These awards have requisite service periods of four years and vest in increments of 25% on the anniversary of the original grant date of November 9, 2011. If an employee is terminated without cause within 12 months from the acquisition date, the RSAs 100% vest. Stock is issued without direct cost to the employee. The RSA grants provide for the payment of dividends on the Company's common stock, if any, to the participant during the requisite service period (vesting period) and the participant has voting rights for each share of common stock. The conversion of the Transaction RSAs was treated as a modification and as such, they were valued immediately prior to and after modification. The Company recognizes compensation expense for RSAs on a straight-line basis over the requisite service period. The incremental fair value as measure upon modification will be recognized on a straight-line basis from modification date through the end of the requisite service period.

A summary of nonvested Transaction RSAs issued under the S1 2003 Stock Incentive Plan as of September 30, 2012 and changes during the period are as follows:

Nonvested Transaction Restricted Share Awards	Number of Restricted Share Awards	Weighted-Average Grant Date Fair Value
Nonvested as of December 31, 2011		\$
Transaction RSAs converted upon acquisition of S1	170,205	35.41
Vested	(83,016)	35.41
Forfeited	(18,529)	35.41
Nonvested as of September 30, 2012	68,660	\$ 35.41

During the nine months ended September 30, 2012, 83,016 shares of the Transaction RSAs vested. The Company withheld 32,080 of those shares to pay the employees' portion of the minimum payroll withholding taxes.

As of September 30, 2012, there were unrecognized compensation costs of \$5.7 million related to nonvested stock options, \$4.3 million related to the nonvested RSAs, and \$7.8 million related to the LTIP performance shares, which the Company expects to recognize over weighted-average periods of 1.8 years, 2.9 years and 1.8 years, respectively.

The Company recorded stock-based compensation expenses for the three months ended September 30, 2012 and 2011 related to stock options, LTIP performance shares, RSAs, and the ESPP of \$2.6 million and \$2.2 million, respectively, with corresponding tax benefits of \$0.9 million and \$0.7 million, respectively. The Company recorded stock-based compensation expenses for the nine months ended September 30, 2012 and 2011 related to stock options, LTIP performance shares, RSAs, and the ESPP of \$11.7 million and \$6.7 million, respectively, with corresponding tax benefits of \$4.2 million and \$2.4 million, respectively. Tax benefits in excess of the option's grant date fair value are classified as financing cash flows. Estimated forfeiture rates, stratified by employee classification, have been included as part of the Company's calculations of compensation costs. The Company recognizes compensation costs for stock option awards that vest with the passage of time with only service conditions on a straight-line basis over the requisite service period.

Cash received from option exercises for the nine months ended September 30, 2012 and 2011 was \$15.1 million and \$2.8 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$5.8 million and \$1.6 million for the nine months ended September 30, 2012 and 2011, respectively.

**Table of Contents****5. Goodwill**

Changes in the carrying amount of goodwill during the nine months ended September 30, 2012, were as follows (in thousands):

	Americas	EMEA	Asia/Pacific	Total
Gross Balance prior to December 31, 2011	\$ 198,598	\$ 43,612	\$ 19,366	\$ 261,576
Total impairment prior to December 31, 2011	(47,432)			(47,432)
Balance as of December 31, 2011	151,166	43,612	19,366	214,144
Addition acquisition of S1 (1)	271,286			271,286
Addition acquisition of North Data (2)	3,498			3,498
Addition acquisition of DistrA (3)			20,166	20,166
Adjustments to S1 goodwill (4)	(5,300)			(5,300)
Allocation of S1 goodwill to segments (5)	(120,039)	90,696	29,343	
Foreign currency translation adjustments	(66)	865	1,194	1,993
Balance as of September 30, 2012	\$ 300,545	\$ 135,173	\$ 70,069	\$ 505,787

- (1) Addition relates to the goodwill acquired in the acquisition of S1 as discussed in Note 2.
- (2) Addition relates to the goodwill acquired in the acquisition of North Data as discussed in Note 2.
- (3) Addition relates to the goodwill acquired in the acquisition of DistrA as discussed in Note 2. The Company has not yet determined the allocation of the goodwill to the segments due to the preliminary nature of the allocation of purchase price as discussed in Note 2. As of September 30, 2012, the entire balance is included in the Asia/Pacific segment.
- (4) Pursuant to our business combinations accounting policy, we recorded goodwill adjustments for the effect on goodwill of changes to net assets acquired during the measurement period. The adjustments to goodwill presented in the table above were not significant to our previously reported operating results or financial position.
- (5) As of September 30, 2012, the Company has made a preliminary allocation of the S1 goodwill to the reporting segments, which was previously recorded entirely in the Americas segment.

**6. Software and Other Intangible Assets**

At September 30, 2012, software net book value totaling \$133.6 million, net of \$69.0 million of accumulated amortization, includes the net book value of software marketed for external sale of \$104.1 million. The remaining software net book value of \$29.5 million is comprised of various software that has been acquired or developed for internal use.

Quarterly amortization of software marketed for external sale is computed using the greater of the ratio of current revenues to total estimated revenues expected to be derived from the software or the straight-line method over an estimated useful life of three to ten years. Software for resale amortization expense recorded in the three months ended September 30, 2012 and 2011 totaled \$3.8 million and \$1.5 million, respectively. Software for resale amortization expense recorded in the nine months ended September 30, 2012 and 2011 totaled \$10.0 million and \$4.8 million, respectively. These software amortization expense amounts are reflected in cost of software license fees in the condensed consolidated statements of operations. Amortization of software for internal use of \$3.0 million and \$2.1 million for the three months ended September 30, 2012 and 2011, respectively, is included in depreciation and amortization in the condensed consolidated statements of operations. Amortization of software for internal use totaled \$8.5 million and \$6.0 million for the nine months ended September 30, 2012 and 2011, respectively.

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

September 30, 2012	December 31, 2011
Net Balance	Net Balance

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	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>		<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	
Customer relationships	\$ 151,511	\$ (30,765)	\$ 120,746	\$ 40,298	\$ (23,392)	\$ 16,906
Purchased contracts	10,823	(10,432)	391	10,750	(10,023)	727
Trademarks and tradenames	5,785	(1,655)	4,130	1,291	(585)	706
Covenant not to compete	443	(158)	285	80	(76)	4
	\$ 168,562	\$ (43,010)	\$ 125,552	\$ 52,419	\$ (34,076)	\$ 18,343

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Other intangible assets amortization expense for the three months ended September 30, 2012 and 2011 totaled \$3.2 million and \$1.8 million, respectively. Other intangible assets amortization expense for the nine months ended September 30, 2012 and 2011 totaled \$8.7 million and \$5.1 million, respectively.

Based on capitalized software and other intangible assets at September 30, 2012, estimated amortization expense for future fiscal years is as follows (in thousands):

Fiscal Year Ending December 31,	Software Amortization	Other Intangible Assets Amortization
Remainder of 2012	\$ 6,740	\$ 3,251
2013	24,367	12,751
2014	22,014	10,984
2015	18,249	7,649
2016	15,740	7,179
Thereafter	46,493	83,738
<b>Total</b>	<b>\$ 133,603</b>	<b>\$ 125,552</b>

**7. 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 \$10.6 million at December 31, 2011 were comprised entirely of S1 Corporation common stock. The Company utilized quoted prices from an active exchange market to fair value its equity securities. The Company acquired S1 Corporation during the first quarter of 2012, subsequently the S1 common stock has been delisted and all S1 assets and liabilities have been consolidated into the Company's condensed consolidated financial statements as of September 30, 2012. The Company recognized a gain of approximately \$1.6 million during the nine months ended September 30, 2012 related to price appreciation of the S1 shares held prior to the acquisition date. See Note 2 for further discussion.

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 presented in the table below.

The fair values of cash equivalents approximate the carrying values due to the short period of time to maturity. The estimated fair value of total debt was \$392.6 million and \$76.8 million at September 30, 2012 and December 31, 2011, respectively, and was estimated using discounted cash flows based on the Company's current incremental borrowing rates (level 2 of the fair value hierarchy) compared to the carrying value of \$384.6 million and \$75.0 million at September 30, 2012 and December 31, 2011, respectively.



**Table of Contents****8. Corporate Restructuring and Other Organizational Changes***Employee Actions*

During the nine months ended September 30, 2012, the Company reduced its headcount by 272 employees as a part of its integration of its recent acquisitions. In connection with these actions, approximately \$9.6 million of termination costs were recognized in general and administrative expense in the accompanying consolidated statements of operations during the nine months ended September 30, 2012. The charges, by segment, were as follows for the nine months ended September 30, 2012: \$4.1 million in the Americas segment, \$4.6 million in the EMEA segment, and \$0.9 million in the Asia/Pacific segment. Approximately \$7.9 million of these termination costs were paid during the nine months ended September 30, 2012. The remaining liability is expected to be paid over the next 12 months.

*Lease Terminations*

During the three months ended September 30, 2012, the Company terminated the lease for its facility in New York, New York. Under the terms of the termination agreement, the Company paid a termination fee of approximately \$1.1 million that was recorded in general and administrative expenses in the accompanying consolidated statements of operations for the three months ended September 30, 2012.

During the three months ended September 30, 2012, the Company terminated the lease for its facility in Dublin, Ireland. Under the terms of the termination agreement, the Company agreed to pay a termination fee of approximately \$2.8 million, of which \$2.3 million was recorded in general and administrative expenses in the accompanying consolidated statements of operations for the three months ended September 30, 2012. The remaining balance of \$0.5 million had been accounted for as an unfavorable lease liability in the S1 purchase price allocation. The termination fee is expected to be paid prior to December 31, 2012.

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

	Severance	Facility Closures	Total
Balance, December 31, 2011	\$	\$	\$
Restructuring charges incurred	9,595	3,456	13,051
Unfavorable lease liability (2)		518	518
Amounts paid during the period	(7,905)	(1,141)	(9,046)
Other (1)	(38)		(38)
Balance, September 30, 2012	\$ 1,652	\$ 2,833	\$ 4,485

(1) Other includes the impact of foreign currency translation.

(2) As a part of the S1 purchase price allocation, \$0.5 million had been allocated to an unfavorable lease liability related to the Dublin facility. The \$1.7 million for unpaid severance is included in accrued employee compensation and the \$2.8 million for unpaid facilities closures is included in accrued and other current liabilities in the accompanying condensed consolidated balance sheet at September 30, 2012.

**9. Stock Repurchase Plan**

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. Under the program to date, the Company has purchased 9,519,872 shares for approximately \$244.9 million. The Company repurchased 1,437,692 shares for \$57.8 million during the nine months ended September 30, 2012.

On September 13, 2012, the Company's board of directors approved the repurchase of up to 2,500,000 shares of the Company's common stock, or up to \$113.0 million. On September 21, 2012, the Company entered into an agreement to repurchase 2,492,600 common stock warrants from

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IBM for \$29.6 million, which was funded under the stock repurchase plan. See Note 16, International Business Machines Corporation Alliance Agreement , for further discussion on the common stock warrants.

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The maximum remaining authorized for purchase under the stock repurchase program was approximately 1.8 million shares or \$76.3 million as of September 30, 2012.

**10. Earnings Per Share**

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Weighted average share outstanding:				
Basic weighted average shares outstanding	39,126	33,495	38,323	33,420
Add: Dilutive effect of stock options, restricted stock awards and common stock warrants	1,586	810		762
Diluted weighted average shares outstanding	40,712	34,305	38,323	34,182

The diluted earnings (loss) per share computation excludes 1.4 million and 5.9 million options to purchase shares, restricted share awards, common stock warrants and contingently issuable shares during the three and nine months ended September 30, 2012, respectively, as their effect would be anti-dilutive. The diluted earnings per share computation for the three and nine months ended September 30, 2011, excludes 3.2 million options to purchase shares, restricted share awards, common stock warrants and contingently issuable shares as their effect would be anti-dilutive.

**11. Other Income (Expense), net**

Other, net is comprised of the following items (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Foreign currency transaction gains (losses)	\$ (1,401)	\$ (45)	\$ (2,410)	\$ 2
Realized gain on available-for-sale securities			1,557	
Other	(29)	(1)	(46)	(90)
Total	\$ (1,430)	\$ (46)	\$ (899)	\$ (88)

**12. Comprehensive Income (Loss)**

The majority of the \$16.1 million accumulated other comprehensive loss included in the Company's consolidated balance sheets represents the accumulated foreign currency translation adjustment. Since the undistributed earnings of the Company's foreign subsidiaries are considered to be permanently reinvested, the components of accumulated other comprehensive loss have not been tax effected.

**13. Segment Information**

The Company's chief operating decision maker, together with other senior management personnel, currently focus their review of consolidated financial information and the allocation of resources based on reporting of operating results, including revenues and operating income, for the geographic regions of the Americas, EMEA and Asia/Pacific and the Corporate line item. The Company's products are sold and supported



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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 operating segments.

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During the year ended December 31, 2011, the Company changed its segment operating income reporting measure to exclude certain corporate general and administrative expenses. Previously, corporate expenses were allocated to the segments. In addition, amortization expense on acquired intangibles is no longer allocated to the individual segments. All periods presented have been recast to reflect these changes.

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 operating segments. Corporate overhead costs relate to human resources, finance, legal, accounting, merger and acquisition activity and amortization of acquisition-related intangibles and other costs that are not considered when management evaluates segment performance.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Revenues:</b>				
Americas	\$ 87,766	\$ 59,845	\$ 243,674	\$ 170,149
EMEA	42,844	38,608	137,252	122,629
Asia/Pacific	24,452	13,696	61,558	37,280
	\$ 155,062	\$ 112,149	\$ 442,484	\$ 330,058
<b>Income (loss) before income taxes:</b>				
Americas	\$ 16,846	\$ 19,407	\$ 47,663	\$ 47,098
EMEA	13,274	8,997	36,776	30,541
Asia/Pacific	7,274	2,664	15,036	2,710
Corporate	(32,914)	(20,047)	(108,218)	(52,033)
	\$ 4,480	\$ 11,021	\$ (8,743)	\$ 28,316

		September 30, 2012	December 31, 2011
<b>Total assets:</b>			
Americas	United States	\$ 730,677	\$ 408,038
Americas	Other	26,725	26,664
EMEA		289,741	166,997
Asia/Pacific (1)		173,659	62,943
		\$ 1,220,802	\$ 664,642

(1) The goodwill related to the Distrax acquisition is included in Asia/Pacific as of September 30, 2012. See Note 5 for further discussion. No single customer accounted for more than 10% of the Company's consolidated revenues during the three months and nine ended September 30, 2012 and 2011. No other country outside the United States accounted for more than 10% of the Company's consolidated revenues during the three and nine months ended September 30, 2012. Aggregate revenues attributable to customers in the United Kingdom accounted for 10.1% of the Company's consolidated revenues during the nine months ended September 30, 2011. No other country outside the United States accounted for more than 10% of the Company's consolidated revenues during the three months ended September 30, 2011.



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

The effective tax rate for the nine months ended September 30, 2012 was 90.6%. The Company reported a tax benefit for the three months ended September 30, 2012 while reporting a pretax profit for the same period. The resulting effective tax rate is negative. The earnings of the Company's foreign entities for the three and nine months ended September 30, 2012 was \$14.5 million and \$37.0 million, respectively. The tax rates in the foreign jurisdictions in which the Company operates are less than the Company's domestic rate, therefore, losses in the foreign jurisdictions will have a negative impact on the Company's effective tax rate, while earnings in the foreign jurisdictions will have a positive impact on the Company's effective tax rate. The effective tax rate for the three and nine months ended September 30, 2012 was positively impacted by foreign profits taxed at lower rates and a domestic loss taxed at a higher rate. The effective tax rate for the three and nine months ended September 30, 2012 was positively impacted by a \$1.6 million release of an accrued tax liability and a favorable adjustment of \$1.0 million to the Company's uncertain tax positions as the statute of limitations expired for the tax returns to which they are associated during the nine months ended September 30, 2012. The effective tax rate for the nine months ended September 30, 2012 was positively impacted by a \$1.4 million release of a valuation allowance during the nine months ended September 30, 2012. The valuation allowance was released based upon evidence that one of the Company's foreign entities will be able to fully utilize its remaining tax losses.

The effective tax rate for the three and nine months ended September 30, 2011 was 4.4% and 22.4%, respectively. The earnings (losses) of the Company's foreign entities for the three and nine months ended September 30, 2011 was \$(0.2) million and \$10.2 million, respectively. The tax rates in the foreign jurisdictions in which the Company operates are less than the Company's domestic rate, therefore, losses in the foreign jurisdictions will have a negative impact on the Company's effective tax rate, while earnings in the foreign jurisdictions will have a positive impact on the Company's effective tax rate. The effective tax rate for the three and nine months ended September 30, 2011 was positively impacted by the release of a \$3.1 million liability due to the expiration of a contractual obligation related to the transfer of certain intellectual property rights from the US to non-US entities. The effective tax rate for the three and nine months ended September 30, 2011 was positively impacted by tax rates in foreign jurisdictions that are less than the Company's domestic rate, partially offset by the recognition of tax expense associated with the transfer of certain intellectual property rights from U.S. to non-U.S. entities.

The amount of unrecognized tax benefits for uncertain tax positions was \$14.0 million as of September 30, 2012 and \$4.0 million as of December 31, 2011, excluding related liabilities for interest and penalties of \$1.8 million and \$1.5 million as of September 30, 2012 and December 31, 2011, respectively. The amount of unrecognized tax benefits for uncertain tax positions increased by \$10.9 million during the nine months ended September 30, 2012 for the uncertain tax positions of S1, which were adjusted in the preliminary purchase price allocation.

The Company believes it is reasonably possible that the total amount of unrecognized tax benefits will decrease within the next 12 months by approximately \$0.5 million, due to the settlement of various audits and the expiration of statutes of limitation.

**15. Commitments and Contingencies***Operating Leases Acquired*

Through the acquisition of S1, the Company obtained leases of office space and equipment under operating leases that run through May 31, 2023. These leases do not impose restrictions as to the Company's ability to pay dividends or borrow funds, or otherwise restrict the Company's ability to conduct business. On a limited basis, certain of the lease arrangements include escalation clauses which provide for rent adjustments due to inflation changes with the expense recognized on a straight-line basis over the term of the lease. Lease payments subject to inflation adjustments do not represent a significant portion of the Company's future minimum lease payments. A number of the leases provide renewal options, but in all cases such renewal options are at the election of the Company. Certain of the lease agreements provide the Company with the option to purchase the leased equipment at its fair market value at the conclusion of the lease term.

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Aggregate minimum operating lease payments under these newly obtained agreements in future fiscal years are as follows (in thousands):

Fiscal Year Ending December 31,	Operating Leases
Remainder of 2012	\$ 893
2013	3,285
2014	2,109
2015	1,365
2016	927
Thereafter	1,866
<b>Total minimum lease payments</b>	<b>\$ 10,445</b>

*New Operating Leases entered into in 2012*

In addition to the leases acquired through the acquisition of S1, the Company entered into several new operating lease agreements of office space during the nine months ended September 30, 2012. The new leases run through March 31, 2022. These leases do not impose restrictions as to the Company's ability to pay dividends or borrow funds, or otherwise restrict the Company's ability to conduct business. On a limited basis, certain of the lease arrangements include escalation clauses which provide for rent adjustments due to inflation changes with the expense recognized on a straight-line basis over the term of the lease. Lease payments subject to inflation adjustments do not represent a significant portion of the Company's future minimum lease payments. A number of the leases provide renewal options, but in all cases such renewal options are at the election of the Company. Certain of the lease agreements provide the Company with the option to purchase the leased equipment at its fair market value at the conclusion of the lease term.

Fiscal Year Ending December 31,	Operating Leases
Remainder of 2012	\$ 102
2013	344
2014	351
2015	419
2016	449
Thereafter	621
<b>Total minimum lease payments</b>	<b>\$ 2,286</b>

*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 acquired in the acquisition of S1, the Company indemnifies customers for certain matters including third party claims of intellectual property infringement relating to the use of our products. Our maximum potential exposure under indemnification arrangements can range from a specified dollar amount to an unlimited amount, depending on the nature of the transactions and the agreements. The Company has recorded an accrual for estimated losses for demands for indemnification that have been tendered by certain customers. The Company does not have any reason to believe that we will be required to make any material payments under these indemnity provisions in excess of the balance accrued at September 30, 2012.

**16. International Business Machines Corporation Alliance Agreement**

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On December 16, 2007, the Company entered into a Master Alliance Agreement ( Alliance ) with IBM relating to joint marketing and optimization of the Company s electronic payments application software and IBM s middleware and hardware platforms, tools and services. On March 17, 2008, the Company and IBM entered into Amendment No. 1 to the Alliance ( Amendment No.1 and included hereafter in all references to the Alliance ), which changed the timing of certain payments to be made by IBM. Under the terms of the Alliance, each party will retain ownership of its respective intellectual property and will independently determine product offering pricing to customers. In connection with the formation of the Alliance, the Company granted warrants to IBM to purchase up to 1,427,035 shares of the Company s common stock at a price of \$27.50 per share and up to 1,427,035 shares of the Company s common stock at a price of \$33.00 per share. The warrants are exercisable for five years. At the date of issuance, the Company utilized a valuation model prepared by a third-party to assist management in estimating the fair value of the common stock warrants.

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IBM exercised warrants to purchase 11,470 shares of the Company's common stock at \$27.50 per share and 350,000 shares of the Company's common stock at \$33.00 per share during the three months ended September 30, 2012, for which the Company received \$11.9 million in cash.

On September 21, 2012, the Company entered into an agreement with IBM to repurchase the remaining common stock warrants held by IBM to purchase 1,415,565 shares of the Company's stock at \$27.50 per share and 1,077,035 shares of the Company's common stock at \$33.00 per share. The total amount paid to IBM for these warrants was \$29.6 million. This repurchase was conducted pursuant to the Company's previously announced share repurchase program. The Company used \$24.0 million from its Revolving Credit Facility and \$5.6 million of cash on hand to fund this repurchase.

No warrants were outstanding at September 30, 2012.

**17. International Business Machines Corporation Information Technology Outsourcing Agreement**

On April 1, 2012, the Company provided notice of termination for the Master Services Agreement with International Business Machines to outsource the Company's internal information technology environment. The effective date of the termination is January 31, 2013.

The Company has recorded the \$3.0 million termination fee in general and administrative expenses during the nine months ended September 30, 2012 in the accompanying consolidated condensed statements of operations. The termination fee is due on the termination date of January 31, 2013. In addition, the Company will incur additional fees related to the transition in accordance with the terms of the agreement that the Company expects to expense and pay as incurred.

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

**Forward-Looking Statements**

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

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

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

the global financial crisis and the continuing decline in the global economy;

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

consolidations and failures in the financial services industry;

increased competition;

restrictions and other financial covenants in our credit facility;

the restatement of our financial statements;

the accuracy of management's backlog estimates;

impairment of our goodwill or intangible assets;

exposure to unknown tax liabilities;

risks from operating internationally;



our offshore software development activities;

customer reluctance to switch to a new vendor;

the performance of our strategic product, BASE24-eps;

our strategy to migrate customers to our next generation products;

rateable or deferred recognition of certain revenue associated with customer migrations and the maturity of certain of our products;

demand for our products;

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;

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

our alliance with International Business Machines Corporation ( IBM );

the complexity of our products and services and the risk that they may contain hidden defects or be subjected to security breaches or viruses;

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

our compliance with privacy regulations;

the protection of our intellectual property in intellectual property litigation;

future acquisitions, strategic partnerships and investments and litigation;

the risk that expected synergies, operational efficiencies and cost savings from our recent acquisition of S1 Corporation ( S1 ) may not be fully realized or realized within the expected timeframe;

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; and

volatility in our stock price.

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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, 2011, filed February 22, 2012. Results for the three and nine months ended September 30, 2012, are not necessarily indicative of results that may be attained in the future.

### Overview

We develop, market, install and support a broad line of software products and services primarily focused on facilitating electronic payments. 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 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 brands.

We derive a majority of our revenues from non-domestic operations and believe our greatest opportunities for growth exist largely in international markets. 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 provide low-cost centers of expertise to support a growing international customer base. 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 low-cost centers of expertise in Romania and India.

Key trends that currently impact our strategies and operations include:

**Global Financial Markets Uncertainty.** The continuing uncertainty in the global financial markets has negatively impacted general business conditions. It is possible that a weakening economy could adversely affect our customers, their purchasing plans, or even their solvency, but we cannot predict whether or to what extent this will occur. We have diversified counterparties and customers, but we continue to monitor our counterparty and customer risks closely. While the effects of the economic conditions in the future are not predictable, we believe our global presence, the breadth and diversity of our service offerings and our enhanced expense management capabilities position us well in a slower economic climate. Market analysts, such as Boston Consulting Group, indicate that banks now recognize the importance of payments to their business, so providing services for that aspect of the business is of less risk than for other aspects of their business.

**Availability of Credit.** There were significant disruptions in the capital and credit markets and many lenders and financial institutions have reduced or ceased to provide funding to borrowers. The availability of credit, confidence in the entire financial sector, and volatility in financial markets have been adversely affected. These disruptions are likely to have some impact on all institutions in the U.S. banking and financial industries, including our lenders and the lenders of our customers. The Federal Reserve Bank has been providing vast amounts of liquidity into the banking system to compensate for weaknesses in short-term borrowing markets and other capital markets. A reduction in the Federal Reserve's activities or capacity could reduce liquidity in the markets, thereby increasing funding costs or reducing the availability of funds to finance our existing operations as well as those of our customers. We are not currently dependent upon short-term funding, and the limited availability of credit in the market has not affected our revolving credit facility or our liquidity or materially impacted our funding costs.

**Increasing electronic payment transaction volumes.** Electronic payment volumes continue to increase around the world, taking market share from traditional cash and check transactions. In February 2011 Boston Consulting Group predicted that noncash payment transactions would grow in volume at an annual rate of 9% from \$309 billion in 2010 to \$740 billion in 2020, with varying growth rates based on the type of payment and part of the world. We leverage the growth in transaction volumes through the licensing of new systems to customers whose older systems cannot handle increased volume and through

the licensing of capacity upgrades to existing customers.

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

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**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. Currently this is impacting areas such as customer relationship management systems rather than payment services. Our investment in ACI On Demand provides us the infrastructure to deliver cloud capabilities in the future.

**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. 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. Chip-based cards are more secure, harder to copy and offer the opportunity for multiple functions on one card (e.g. debit, credit, electronic purse, identification, health records, etc.). The EMV standard for issuing and processing debit and credit card transactions has emerged as the global standard, with many regions throughout the world working on EMV rollouts. The primary benefit of EMV deployment is a reduction in electronic payment fraud, with the additional benefit that the core infrastructure necessary for multi-function chip cards is being put in place (e.g., chip card readers in ATMs and POS devices) allowing the deployment of other technologies like contactless. We are working with many customers around the world to facilitate EMV deployments, leveraging several of our solutions.

**Single Euro Payments Area ( SEPA ).** The SEPA, primarily focused on the European Economic Community and the United Kingdom, is designed to facilitate lower costs for cross-border payments and reduce timeframes for settling electronic payment transactions. 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. However, current uncertainty over the future of the Euro currency may delay further take up of the SEPA payment mechanisms.

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



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**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 Agile Payments Solution strategy is, in part, focused on this trend, by creating integrated payment functions that can be re-used by multiple bank channels, across both the consumer and wholesale bank. While this trend presents an opportunity for us, it may also expand the competition from third-party electronic payment technology and service providers specializing in other forms of electronic payments. Many of these providers are larger than us and have significantly greater financial, technical and marketing resources.

**Mobile banking and payments.** There is a growing demand for the ability to carry out banking services or make payments using a mobile phone. Our customers have been making use of existing products to deploy mobile banking, mobile payment and mobile commerce and mobile payment solutions for their customers in many countries. The recent S1 acquisition has provided new product capabilities and led to the launch of ACI Mobile Channel Manager in June 2012. As the market continues to develop, we expect to extend our product sets as appropriate to support mobile functionality.

The banking, financial services and payments industries have come under increased scrutiny from federal, state and foreign lawmakers and regulators in response to the crises in the financial markets and the global recession. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was signed into law July 21, 2010, represents a comprehensive overhaul of the U.S. financial services industry and requires the implementation of many new regulations that will have a direct impact on our customers and potential customers. These regulatory changes may create both opportunities and challenges for us. The application of the new regulations on our customers could create an opportunity for us to market our product capabilities and the flexibility of our solutions to assist our customers in addressing these regulations. At the same time, these regulatory changes may have an adverse impact on our operations and our financial results as we adjust our activities in light of increased compliance costs and customer requirements. It is currently too difficult to predict the actual extent to which the Dodd-Frank Act or the resulting regulations will impact our business and the businesses of our current and potential customers.

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

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

### **Acquisitions**

#### *Distra Pty Ltd*

On September 18, 2012, we closed the acquisition of Distra Pty Ltd ( Distra ). The Distra Universal Payments Platform delivers a fault-tolerant, Service-Oriented Architecture (SOA)-based payments platform that helps to significantly reduce the risk and cost of payments transformation without compromising security, performance, scalability and reliability. The integration of ACI and Distra technologies will enable financial institutions, processors and retailers to enhance the flexibility and performance of their existing payments infrastructure to address market needs,

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such as mobile, social channels and payment service hubs. In addition, this acquisition will enable ACI's payment products to integrate more tightly with customers' enterprise architectures, reducing their total cost of ownership.



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The aggregate purchase price of Distra was \$49.8 million. In addition, we paid \$0.5 million in transaction fees in relation to the acquisition of Distra. The consideration paid 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,

### *North Data Uruguay S.A.*

On May 24, 2012, we closed the acquisition of North Data Uruguay S.A. ( North Data ). North Data had been a long-term partner of ours, serving customers in South America in sales, service and support functions. The addition of the North Data team to the Company reinforces its commitment to serve the Latin American market.

The aggregate purchase price of North Data was \$4.6 million, which included cash acquired of \$0.1 million. 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 purchase price is based upon certain external valuations and other analyses that have not been completed as of the date of this filing. Accordingly, the purchase price allocations are preliminary and are subject to future adjustments during the maximum one-year allocation period.

Factors contributing to the purchase price that resulted in the goodwill (which is not tax deductible) include the acquisition of management, sales, and services personnel with the skills to market and support products of the Company in the Latin America region.

### *S1 Corporation*

On February 10, 2012, we completed the exchange offer for S1 Corporation and all its subsidiaries. The acquisition was effectively closed on February 13, 2012 for approximately \$368.7 million in cash and 5.9 million shares of our stock, including 95,500 shares reissued from Treasury stock, resulting in a total purchase price of \$587.3 million (the Merger ). The combination of the Company and S1 will create a leader in the global enterprise payments industry. The combined company will have enhanced scale, breadth and additional capabilities, as well as a complementary suite of products that will better serve the entire spectrum of financial institutions, processors and retailers.

The Merger was accounted for using the acquisition method of accounting with the Company identified as the acquirer. Under the acquisition method of accounting, we recorded all assets acquired and liabilities assumed at their respective acquisition-date fair values.

We used \$73.7 million of our cash balance for the acquisition in addition to \$295.0 million of senior bank financing arranged through Wells Fargo Securities, LLC. See Note 3, *Debt*, for terms of the financing arrangement.

The acquisition of S1 positions us as a full-service global leader of financial and payment solutions, with the ability to deliver the broadest suite of payment offerings globally targeting financial organizations, processors and retailers supported by a global team of expert, local employees. S1 brings to the Company a highly complementary set of products, strong global capabilities and success with a range of financial institutions and retailers.

We have achieved annual cost synergies of approximately \$33 million with the integration of S1. We anticipate we will achieve an additional \$20 million in cost synergies as a result of IT, facilities, and data center consolidations in future periods. In addition, the increased global scale and expected cost savings are expected to generate margin expansion.

## **Restructuring**

During the nine months ended September 30, 2012, we reduced our headcount by 272 employees as a part of our integration of our recent acquisitions. In connection with these actions, during the nine months ended September 30, 2012, approximately \$9.6 million of termination costs were recognized in general and administrative expense in the condensed consolidated statements of operations. Approximately \$7.9 million of these termination costs were paid during the nine months ended September 30, 2012. The remaining liability is expected to be paid over the next 12 months.

During the nine months ended September 30, 2012, we terminated our facility leases in New York, New York and Dublin Ireland for \$1.1 million and \$2.8 million, respectively. Termination fees of \$3.4 million were recognized in general and administrative expenses in the condensed consolidated statements of operations with the remaining \$0.5 million previously accrued as an unfavorable lease liability as a part of the S1 purchase price allocation.



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### **International Business Machines Corporation Alliance Agreement**

IBM exercised their warrants to purchase 11,470 shares of the Company's common stock at \$27.50 per share and 350,000 shares of the Company's common stock at \$33.00 per share during the three months ended September 30, 2012, for which we received \$11.9 million in cash.

On September 21, 2012, we entered into an agreement with IBM to repurchase the remaining common stock warrants held by IBM to purchase 1,415,565 shares of the Company's stock at \$27.50 per share and 1,077,035 shares of the Company's common stock at \$33.00 per share. The total amount paid to IBM for these warrants was \$29.6 million. This repurchase was conducted pursuant to the Company's previously announced share repurchase program. We used an additional \$24.0 million from our Revolving Credit Facility and cash on hand to fund this repurchase.

No warrants were outstanding at September 30, 2012.

### **International Business Machines Corporation Information Technology Outsourcing Agreement**

On April 1, 2012, we provided notice of termination for the Master Services Agreement with International Business Machines to outsource our internal information technology environment. The effective date of the termination will be January 31, 2013.

We have recorded the \$3.0 million termination fee in general and administrative expenses during the nine months ended September 30, 2012 in the accompanying consolidated condensed statements of operations. The termination fee is due on the termination date of January 31, 2013. In addition, we will incur additional fees related to the transition in accordance with the terms of the agreement that we expect to expense and pay as incurred.

### **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 and facilities management 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:

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Anticipated increases in transaction volumes in customer systems.

Optional annual uplifts or inflationary increases in recurring fees.

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

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

We review our customer renewal experience on an annual basis. The impact of this review and subsequent update may result in a revision to the renewal assumptions used in computing the 60-month and 12-month backlog estimates. In the event a revision to renewal assumptions is determined to be necessary, prior periods will be adjusted for comparability purposes. Based on our annual review of customer renewal experience completed during the three months ended December 31, 2011, backlog results for all reported periods have been updated to reflect our most current customer renewal experience.

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The following table sets forth our 60-month backlog estimate, by geographic region, as of September 30, 2012, June 30, 2012, March 31, 2012 and December 31, 2011 (in millions). The September 30, 2012 60-month backlog estimate includes approximately \$709 million as a result of the acquisition of S1. Dollar amounts reflect foreign currency exchange rates as of each period end.

	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
Americas	\$ 1,419	\$ 1,414	\$ 1,405	\$ 912
EMEA	686	653	669	514
Asia/Pacific	262	239	243	191
Total	\$ 2,367	\$ 2,306	\$ 2,317	\$ 1,617

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.

The following table sets forth our 60-month Committed Backlog and Renewal Backlog estimates as of September 30, 2012, June 30, 2012, March 31, 2012 and December 31, 2011 (in millions). Dollar amounts reflect foreign currency exchange rates as of each period end.

	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
Committed	\$ 1,122	\$ 1,096	\$ 1,117	\$ 952
Renewal	1,245	1,210	1,200	665
Total	\$ 2,367	\$ 2,306	\$ 2,317	\$ 1,617

We also estimate 12-month backlog, segregated between monthly recurring and non-recurring revenues, using a methodology consistent with the 60-month backlog estimate. Monthly recurring revenues include all monthly license fees, maintenance fees and processing services fees. Non-recurring revenues include other software license fees and services fees. Amounts included in our 12-month backlog estimate assume renewal of one-time license fees on a monthly fee basis if such renewal is expected to occur in the next 12 months. The following table sets forth our 12-month backlog estimate, by geographic region, as of September 30, 2012, June 30, 2012, March 31, 2012 and December 31, 2011 (in millions). The September 30, 2012 12-month backlog estimate includes approximately \$170 million as a result of the acquisition of S1. For all periods reported, approximately 90% of our 12-month backlog estimate is Committed Backlog and approximately 10% of our 12-month backlog estimate is Renewal Backlog. Dollar amounts reflect foreign currency exchange rates as of each period end.

	September 30, 2012			June 30, 2012		
	Monthly Recurring	Non- Recurring	Total	Monthly Recurring	Non- Recurring	Total
Americas	\$ 284	\$ 57	\$ 341	\$ 278	\$ 63	\$ 341
EMEA	127	39	166	120	38	158
Asia/Pacific	54	23	77	48	23	71
Total	\$ 465	\$ 119	\$ 584	\$ 446	\$ 124	\$ 570

	March 31, 2012			December 31, 2011		
	Monthly Recurring	Non- Recurring	Total	Monthly Recurring	Non- Recurring	Total
Americas	\$ 282	\$ 59	\$ 341	\$ 183	\$ 47	\$ 230
EMEA	124	44	168	97	43	140

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Asia/Pacific	48	25	73	38	16	54
Total	\$ 454	\$ 128	\$ 582	\$ 318	\$ 106	\$ 424

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

**RESULTS OF OPERATIONS**

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue
<b>Revenues:</b>								
Initial license fees (ILFs)	\$ 14,863	9.6%	\$ 15,058	13.4%	\$ 52,367	11.8%	\$ 40,327	12.2%
Monthly license fees (MLFs)	24,697	15.9%	24,191	21.6%	74,748	16.9%	88,731	26.9%
Software license fees	39,560	25.5%	39,249	35.0%	127,115	28.7%	129,058	39.1%
Maintenance fees	47,920	30.9%	36,928	32.9%	141,014	31.9%	109,193	33.1%
Services	35,811	23.1%	23,770	21.2%	92,551	20.9%	57,814	17.5%
Software hosting fees	31,771	20.5%	12,202	10.9%	81,804	18.5%	33,993	10.3%
Total revenues	155,062	100.0%	112,149	100.0%	442,484	100.0%	330,058	100.0%
<b>Expenses:</b>								
Cost of software licenses fees	5,874	3.8%	3,763	3.4%	16,624	3.8%	11,341	3.4%
Cost of maintenance, services, and hosting fees	51,944	33.5%	29,996	26.7%	148,550	33.6%	91,421	27.7%
Research and development	34,213	22.1%	22,481	20.0%	100,173	22.6%	69,395	21.0%
Selling and marketing	20,448	13.2%	19,814	17.7%	64,324	14.5%	60,899	18.5%
General and administrative	24,533	15.8%	19,068	17.0%	87,131	19.7%	51,234	15.5%
Depreciation and amortization	9,742	6.3%	5,759	5.1%	26,845	6.1%	16,580	5.0%
Total expenses	146,754	94.6%	100,881	90.0%	443,647	100.3%	300,870	91.2%
Operating income (loss)	8,308	5.4%	11,268	10.0%	(1,163)	-0.3%	29,188	8.8%
<b>Other income (expense):</b>								
Interest income	222	0.1%	205	0.2%	705	0.2%	639	0.2%
Interest expense	(2,620)	-1.7%	(406)	-0.4%	(7,386)	-1.7%	(1,423)	-0.4%
Other, net	(1,430)	-0.9%	(46)	0.0%	(899)	-0.2%	(88)	0.0%
Total other income (expense)	(3,828)	-2.5%	(247)	-0.2%	(7,580)	-1.7%	(872)	-0.3%
Income (loss) before income taxes	4,480	2.9%	11,021	9.8%	(8,743)	-2.0%	28,316	8.6%
Income tax expense (benefit)	(1,175)	-0.8%	482	0.4%	(7,925)	-1.8%	6,355	1.9%

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Net income (loss)	\$ 5,655	3.6%	\$ 10,539	9.4%	\$ (818)	-0.2%	\$ 21,961	6.7%
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### Three-Month Period Ended September 30, 2012 Compared to Three-Month Period September 30, 2011

#### Revenues

Total revenues for the three months ended September 30, 2012 increased \$42.9 million, or 38.3%, as compared to the same period in 2011 of which \$47.8 million, or 42.6%, was due to the addition of S1. Total revenues increased as a result of a \$0.3 million, or 0.8%, increase in software license fee revenues, a \$11.0 million, or 29.8%, increase in maintenance fee revenue, a \$12.0 million, or 50.7%, increase in services revenues, and a \$19.6 million, or 160.4%, increase in software hosting fees revenue.

The increase in total revenues was driven by increases in the Americas, EMEA and Asia/Pacific reportable operating segments of \$27.9 million, \$4.2 million and \$10.8 million, respectively.



**Table of Contents***Software License Fees Revenue*

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

As a result of the maturation of certain retail payment engine products, certain of our initial license fees are being recognized ratably over an extended period. Initial license and capacity fees that are recognized as revenue ratably over an extended period are included in our monthly license fee revenues. Due to the varying periods over which these revenues are being recognized, our MLF revenues may decrease as compared to the same period in 2011.

*Initial License Fees (ILF) Revenue*

ILF revenue includes license and capacity revenues that do not recur on a monthly or quarterly basis. Included in ILF revenues 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. ILF revenues during the three months ended September 30, 2012 compared to the same period in 2011, decreased by \$0.2 million, or 1.3%. The decrease in ILF revenues is primarily due to modest differences in revenue recognized from customer go-live and capacity events as compared to the year ago quarter. ILF revenue decreased in the Americas operating segment by \$1.4 million partially offset by an increase in the EMEA and Asia/Pacific operating segments by \$0.6 million and \$0.6 million, respectively. Capacity-related revenues were unchanged for the three months ended September 30, 2012 as compared to the same period in 2011. ILF revenue increased \$2.0 million, or 13.2%, due to the addition of S1.

*Monthly License Fees (MLF) Revenue*

MLF revenues are license and capacity revenues that are 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 MLF revenue. MLF revenues increased \$0.5 million, or 2.1%, during the three months ended September 30, 2012, as compared to the same period in 2011 with the Americas and Asia/Pacific operating segments increasing by \$0.9 million and \$0.4 million, respectively, partially offset by a decrease of \$0.8 million in the EMEA operating segment. MLF revenue increased \$2.4 million, or 9.9%, due to the addition of S1.

*Maintenance Fees Revenue*

Maintenance fee revenue includes standard and enhanced maintenance or any post-contract support fees received from customers for the provision of product support services. Maintenance fee revenues increased \$11.0 million, or 29.8%, during the three months ended September 30, 2012, as compared to the same period in 2011. Maintenance fee revenue increased in the Americas, EMEA and Asia/Pacific operating segments by \$5.8 million, \$1.8 million and \$3.4 million, respectively. Maintenance fee revenue increased \$12.7 million, or 34.4%, due to the addition of S1.

*Services Revenue*

Services revenue includes fees earned through implementation services, professional services and facilities management services. Implementation services include product installations, product configurations, and retrofit custom software modifications (CSM's). Professional services include business consultancy, technical consultancy, on-site support services, CSM's, 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 increased \$12.0 million, or 50.7%, for the three months ended September 30, 2012, as compared to the same period in 2011 of which \$12.5 million, or 52.5%, is due to the addition of S1. Services revenue increased in all operating segments with the Americas, EMEA and Asia/Pacific operating segments increasing by \$4.5 million, \$1.1 million and \$6.4 million, respectively.

*Software Hosting Fees Revenue*

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Software hosting fee revenue includes fees earned through hosting and on-demand arrangements. All revenues from hosting and on-demand arrangements, which may include set-up fees, implementation or customization services, and product support services, are included in software hosting fee revenue.

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Software hosting fees revenue increased \$19.6 million for the three months ended September 30, 2012 as compared to the three months ended September 30, 2011 of which \$18.2 million is due to the addition of S1. Software hosting fee revenue increased in the Americas and EMEA segments by \$18.0 million and \$1.6 million, respectively, and can be attributed to new customers adopting our on-demand or hosted offerings and existing customers adding new functionality or services.

### **Expenses**

Total operating expenses for the three months ended September 30, 2012 increased \$45.9 million, or 45.5%, as compared to the same period of 2011. Included in operating expenses for the three months ended September 30, 2012 were approximately \$44.0 million of operating expenses from the addition of S1. Additionally, there were approximately \$4.5 million and \$3.4 million of acquisition related one-time expenses incurred in the three months ended September 30, 2012, and September 30, 2011, respectively. One-time expenses for the three months ended September 30, 2012 included \$3.5 million related to termination charges associated with office closures, \$0.5 million of employee related charges and \$0.5 million of additional professional and other expenses related to the acquisition of S1. Excluding these expenses, total operating expenses increased \$0.8 million in the three months ended September 30, 2012 compared to the same period in 2011.

#### *Cost of Software License Fees*

The cost of software licenses 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 software licenses 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 software licenses fees increased \$2.1 million, or 56.1%, in the three months ended September 30, 2012 compared to the same period in 2011 primarily from \$2.1 million amortization of S1 acquisition software.

#### *Cost of Maintenance, Services, and Hosting fees*

Cost of maintenance, services and hosting fees 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.

Cost of maintenance, services, and hosting fees increased \$21.9 million, or 73.2%, in the three months ended September 30, 2012 compared to the same period in 2011 primarily as a result of \$21.0 million from the addition of S1.

#### *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 and the costs related to regulatory requirements and processing mandates as well as compatibility with new operating system releases and generations of hardware.

Research and development expense increased \$11.8 million, or 52.2%, in the three months ended September 30, 2012 compared to the same period in 2011 primarily as a result of \$10.1 million from the addition of S1. The remaining increase is primarily related to an increase in personnel 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 the Company, its products and the research efforts required to measure customers' future needs and satisfaction levels. Selling costs are primarily the human resource and travel costs related to the effort expended to license our products and services to current and potential customers within defined territories and/or industries as well as the management of the overall relationship with customer accounts. Selling costs also include the costs associated with assisting distributors in their efforts to sell our products and services in their respective local markets. Marketing costs include costs needed to promote the Company and its products as well as perform or acquire market research to help us better understand what products our customers are looking for in the future. Marketing costs also include the costs associated with measuring

customers' opinions toward the Company, our products and personnel.

Selling and marketing expense increased \$0.6 million, or 3.2%, in the three months ended September 30, 2012 compared to the same period in 2011 as a result of \$3.3 million from the addition of S1, partially offset by \$2.1 million of lower personnel related expenses and \$0.6 million in lower advertising and promotion expenses.

**Table of Contents***General and Administrative*

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

General and administrative expense increased \$5.5 million, or 28.7%, in the three months ended September 30, 2012. Included in general and administrative expenses for the three months ended September 30, 2012 were approximately \$3.2 million of operating expenses related to the addition of S1. Additionally, there were approximately \$4.5 million and \$3.4 million of acquisition related one-time expenses incurred in the three months ended September 30, 2012, and September 30, 2011, respectively. One-time expenses for the three months ended September 30, 2012, included \$3.5 million related to termination charges associated with office closures, \$0.5 million of employee related charges and \$0.5 million of additional professional fees related to the acquisition of S1. Excluding these expenses, total general and administrative expenses increased \$1.2 million in the three months ended September 30, 2012 compared to the same period in 2011, partially due to one-time expenses associated with our acquisition of DistrA Pty Ltd.

*Depreciation and Amortization*

Depreciation and amortization expense includes charges for depreciation of property and equipment and amortization of acquired intangibles excluding amortization of purchased or developed technology for resale. Amortization of acquired intangibles include customer relationships, trade names, non-competes and other intangible assets.

Depreciation and amortization expense increased \$4.0 million, or 69.2%, in the three months ended September 30, 2012 compared to the same period in 2011 as a result of \$3.8 million from the addition of S1.

**Other Income and Expense**

Other income and expense includes interest income and expense, foreign currency gains and losses, and other non-operating items. Fluctuating currency rates impacted the three months ended September 30, 2012 by \$1.4 million in net foreign currency losses, as compared with less than \$0.1 million in net losses during the same period in 2011. Interest expense increased \$2.2 million during the three months ended September 30, 2012 compared to the same period in 2011 due primarily to the increased debt used to partially fund the S1 acquisition during the first quarter of 2012. Interest income was flat for the three months ended September 30, 2012 when compared to the corresponding period in 2011.

**Income Taxes**

We reported a tax benefit for the three months ended September 30, 2012 while reporting a pretax profit for the same period. The resulting effective tax rate is negative. The earnings of our foreign entities for the three months ended September 30, 2012 were \$14.5 million. The tax rates in the foreign jurisdictions in which we operate are less than the domestic tax rate. The effective tax rate for the three months ended September 30, 2012 was positively impacted by foreign profits taxed at lower rates and a domestic loss taxed at a higher rate. The effective tax rate for the three months ended September 30, 2012 was positively impacted by a \$1.6 million release of an accrued tax liability and a favorable adjustment of \$1.0 million in our uncertain tax positions as the statute of limitations expired for the tax returns to which they are associated during the three months ended September 30, 2012.

The effective tax rate for the three months ended September 30, 2011 was 4.4%. The earnings (losses) of our foreign entities for the three months ended September 30, 2011 were \$(0.2) million. The effective tax rate for the three months ended September 30, 2011 was positively impacted by the release of a \$3.1 million liability due to the expiration of a contractual obligation related to the transfer of certain intellectual property rights from US to non-US entities. Our effective tax rate was positively impacted by tax rates in foreign jurisdictions that are less than our domestic rate, partially offset by the recognition of tax expense associated with the transfer of certain intellectual property rights from U.S. to non-U.S. entities.

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.



**Table of Contents****Nine-Month Period Ended September 30, 2012 Compared to Nine-Month Period September 30, 2011****Revenues**

Total revenues for the nine months ended September 30, 2012 increased \$112.4 million, or 34.1%, as compared to the same period in 2011 of which \$113.4 million was due to the addition of S1. Total revenues increased as a result of a \$31.8 million, or 29.1%, increase in maintenance fee revenue, a \$34.7 million, or 60.1%, increase in services revenues, and a \$47.8 million, or 140.6%, increase in software hosting fees revenue, offset by a \$1.9 million, or 1.5%, decrease in software license fee revenues.

The increase in total revenues was driven by increases in the Americas, EMEA and Asia/Pacific reportable operating segments of \$73.5 million, \$14.6 million and \$24.3 million, respectively.

*Initial License Fees (ILF) Revenue*

ILF revenues during the nine months ended September 30, 2012 compared to the same period in 2011, increased by \$12.0 million, or 29.9%, of which \$3.5 million, or 8.7% was due to the addition of S1. The increase in ILF revenues is primarily due to an increase in revenue recognized from customer go-live and capacity events as compared to the year ago quarter. ILF revenue increased in all operating segments with the Americas, EMEA, and Asia/Pacific operating segments increasing by \$1.6 million, \$6.6 million and \$3.8 million, respectively. Included in the above is an increase in capacity-related revenues of \$8.7 million primarily in the EMEA operating segments and to a lesser extent in the Americas and Asia/Pacific operating segments within the nine months ended September 30, 2012 as compared to the same period in 2011.

*Monthly License Fees (MLF) Revenue*

MLF revenues decreased \$14.0 million, or 15.8%, during the nine months ended September 30, 2012, as compared to the same period in 2011 with the Americas and EMEA operating segments decreasing by \$1.1 million and \$13.7 million, respectively, partially offset by an increase of \$0.8 million in the Asia/Pacific operating segment. MLF revenue increased \$5.3 million, or 6.0%, due to the addition of S1. The overall decrease in MLF revenues is primarily due to a reduction in the amount of ILF revenue that is being recognized ratably over an extended period as a result of the maturation of certain retail payment engine products in the Americas and EMEA operating segments.

*Maintenance Fees Revenue*

Maintenance fee revenues increased \$31.8 million, or 29.1%, during the nine months ended September 30, 2012, as compared to the same period in 2011 of which \$31.0 million, or 28.4%, was due to the addition of S1. Maintenance fee revenue increased in the Americas, EMEA and Asia/Pacific operating segments by \$16.0 million, \$9.5 million and \$6.3 million, respectively. Increases in maintenance fee revenues are primarily driven by an increase in the customer installation base, expanded product usage by existing customers, and increased adoption of our enhanced support programs.

*Services Revenue*

Services revenue increased \$34.7 million, or 60.1%, for the nine months ended September 30, 2012, as compared to the same period in 2011 of which \$30.9 million, or 53.5%, is due to the addition of S1. Services revenue increased in all operating segments with the Americas, EMEA and Asia/Pacific operating segments increasing by \$12.3 million, \$9.1 million and \$13.3 million, respectively.

*Software Hosting Fees Revenue*

Software hosting fees revenue increased \$47.8 million for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011 of which \$42.6 million is due to the addition of S1. Software hosting fee revenue increased in the Americas and EMEA segments by \$44.7 million and \$3.1 million, respectively, and can be attributed to the acquisition of S1 and new customers adopting our on-demand or hosted offerings and existing customers adding new functionality or services.

**Expenses**

Total operating expenses for the nine months ended September 30, 2012 increased \$142.8 million, or 47.5%, as compared to the same period of 2011. Included in operating expenses for the nine months ended September 30, 2012 were approximately \$115.4 million of operating expenses related to the addition of S1. Additionally, there were approximately \$27.1 million and \$3.4 million of one-time expenses incurred in the nine

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months ended September 30, 2012, and September 30, 2011, respectively. Included in the \$27.1 million of one-time expenses for the nine months ended September 30, 2012 were \$13.2 million of employee related expense, \$4.1 million related to investment banking fees, \$3.2 million related to IT outsource termination charges, \$3.5 million related to facility termination charges and \$3.1 million of additional professional fees related to the acquisition of S1. Excluding these expenses, total operating expenses increased \$3.7 million in the nine months ended September 30, 2012 compared to the same period in 2011.



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**Table of Contents***Cost of Software License Fees*

Cost of software licenses fees increased \$5.3 million, or 46.6% in the nine months ended September 30, 2012 compared to the same period in 2011 as a result of \$5.3 million in amortization expense for S1 acquisition software.

*Cost of Maintenance, Services, and Hosting fees*

Cost of maintenance, services, and hosting fees increased \$57.1 million, or 62.5%, in the nine months ended September 30, 2012 compared to the same period in 2011 primarily as a result of \$55.6 million from the addition of S1.

*Research and Development*

Research and development expense increased \$30.8 million, or 44.4%, in the nine months ended September 30, 2012 compared to the same period in 2011 primarily as a result of \$27.9 million from the addition of S1 and \$2.9 million in increased personnel costs.

*Selling and Marketing*

Selling and marketing expense increased \$3.4 million, or 5.6%, in the nine months ended September 30, 2012 compared to the same period in 2011 primarily as a result of \$8.0 million from the addition of S1 partially offset by \$4.6 million in lower personnel related expenses.

*General and Administrative*

General and administrative expense increased \$35.9 million, or 70.1%, in the nine months ended September 30, 2012 compared to the same period in 2011. There were approximately \$27.1 million and \$3.4 million of one-time expenses incurred in the nine months ended September 30, 2012, and September 30, 2011, respectively. Included in the \$27.1 million of one-time expenses for the nine months ended September 30, 2012 were \$13.2 million of employee related expense, \$4.1 million related to investment banking fees, \$3.2 million related to IT outsource termination charges, \$3.5 million related to facility termination charges and \$3.1 million of additional professional fees related to the acquisition of S1. Additionally, \$8.6 million of the increase was the result of the addition of S1. Excluding these expenses, total general and administrative expenses increased \$3.6 million in the nine months ended September 30, 2012 compared to the same period in 2011.

*Depreciation and Amortization*

Depreciation and amortization expense increased \$10.3 million, or 61.9%, in the nine months ended September 30, 2012 compared to the same period in 2011 as a result of \$9.1 million from the addition of S1 and \$1.2 million from higher capital expenditures.

**Other Income and Expense**

Other income and expense includes interest income and expense, foreign currency gains and losses, and other non-operating items. Fluctuating currency rates impacted the nine months ended September 30, 2012 by \$2.4 million in net foreign currency losses, as compared with less than \$0.1 million in net gains during the same period in 2011. Interest expense increased \$6.0 million during the nine months ended September 30, 2012 compared to the same period in 2011 due to the increased debt used to partially fund the S1 acquisition during the first quarter of 2012. Interest income was flat for the nine months ended September 30, 2012 when compared to the corresponding period in 2011. The Company also realized a gain of \$1.6 million on the shares of S1 stock previously held as available-for-sale during the nine months ended September 30, 2012.

**Income Taxes**

The effective tax rate for the nine months ended September 30, 2012 was 90.6%. The earnings of our foreign entities for the nine months ended September 30, 2012 were \$37.0 million. The tax rates in the foreign jurisdictions in which we operate are less than the domestic tax rate. The effective tax rate for the nine months ended September 30, 2012 was positively impacted by foreign profits taxed at lower rates and a domestic loss taxed at a higher rate. The effective tax rate for the nine months ended September 30, 2012 was positively impacted by a \$1.4 million release of a valuation allowance. The valuation allowance was released based upon evidence that one of our foreign entities will be able to fully utilize its remaining tax losses. The effective tax rate for the nine months ended September 30, 2012 was positively impacted by a \$1.6 million release of an accrued tax liability and a favorable adjustment of \$1.0 million to our uncertain tax positions as the statute of limitations expired for the tax returns to which they are associated during the nine months ended September 30, 2012.



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The effective tax rate for the nine months ended September 30, 2011 was 22.4%. The earnings of our foreign entities for the nine months ended September 30, 2011 were \$10.2 million. The effective tax rate for the nine months ended September 30, 2011 was positively impacted by the favorable adjustment of \$3.9 million to our uncertain tax positions, partially offset by a reversal of related deferred tax assets of \$1.7 million. The effective tax rate for the nine months ended September 30, 2011 was positively impacted by tax rates in foreign jurisdictions that are less than our domestic rate, partially offset by the recognition of tax expense associated with the transfer of certain intellectual property rights from U.S. to non-U.S. entities.

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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Revenues:</b>				
Americas	\$ 87,766	\$ 59,845	\$ 243,674	\$ 170,149
EMEA	42,844	38,608	137,252	122,629
Asia/Pacific	24,452	13,696	61,558	37,280
	\$ 155,062	\$ 112,149	\$ 442,484	\$ 330,058
<b>Income (loss) before income taxes:</b>				
Americas	\$ 16,846	\$ 19,407	\$ 47,663	\$ 47,098
EMEA	13,274	8,997	36,776	30,541
Asia/Pacific	7,274	2,664	15,036	2,710
Corporate	(32,914)	(20,047)	(108,218)	(52,033)
	\$ 4,480	\$ 11,021	\$ (8,743)	\$ 28,316

During the year ended December 31, 2011, we changed our segment operating income reporting measure to exclude certain corporate general and administrative expenses. Previously, corporate expenses were allocated to the segments. In addition, amortization expense on acquired intangibles is no longer allocated to the individual segments. All periods presented have been recast to reflect these changes.

Operating 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 operating segments as a percentage of revenue or as a percentage of headcount. All administrative costs that are not directly attributable or reasonably allocable to a geographic segment are included in the corporate line item.

The increase in revenue and income before taxes for all geographic segments is due to the addition of S1 during the nine months ended September 30, 2012. The Corporate line item's loss before taxes increased for the three and nine months ended September 30, 2012 compared to the same period in 2011 due to approximately \$4.5 million and \$27.1 million, respectively, in one-time expenses related to the acquisition of S1 as well as an increase in amortization expense for the intangible assets acquired of \$1.5 million and \$4.7 million for the three and nine months ended September 30, 2012, respectively. Interest expense increased Corporate expense by \$2.2 million and \$6.0 million for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011. The remaining increase for the nine months ended September 30, 2012 compared to the same period in 2011 is due to additional corporate operating costs incurred with the addition of S1. These costs include both duplicative operating costs incurred before the synergy savings plans were fully implemented and increased corporate costs

added to support the larger integrated Company. The Company expects corporate costs to continue to decrease moving forward into 2013 as the synergy savings are realized.

**Table of Contents****Liquidity and Capital Resources***General*

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

As of September 30, 2012, we had \$87.7 million in cash and cash equivalents. Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less.

As of September 30, 2012, \$77.0 million of the \$87.7 million of cash and cash equivalents was held by our foreign subsidiaries. If these funds were needed for our operations in the U.S. we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(amounts in thousands)</b>	
<b>Net cash provided by (used by):</b>		
Operating activities	\$ (12,742)	\$ 52,235
Investing activities	(339,868)	(43,006)
Financing activities	243,705	1,126

Net cash flows provided by (used by) operating activities for the nine months ended September 30, 2012 amounted to \$(12.7) million as compared to \$52.2 million during the same period in 2011. The comparative period decrease was primarily due to the payment of \$19.4 million in S1 acquisition related acquired liabilities, \$6.6 million of the Company's transaction fees related to its recent acquisitions, \$7.9 million in cash payments for restructuring related severance related to the S1 acquisition, \$1.1 million in cash payments for facility closures, and an additional \$4.9 million in tax payments during the nine months ended September 30, 2012 compared to the same period in 2011. In addition, we experienced a decrease of \$14.7 million in the first nine months of 2012 compared to the same period in 2011 due to timing of the collection of receivables primarily related to the integration activities of the recent acquisitions. Our current policy is to use our operating cash flow primarily for funding capital expenditures, our share buyback program, and acquisitions.

During the first nine months of 2012, we paid \$270.9 million, net of \$97.7 million in cash acquired, to acquire S1. In addition, we paid \$4.6 million, net of \$0.1 million in cash acquired, to acquire North Data, and \$49.8 million to acquire Distra. Additionally, we used cash of \$13.6 million to purchase software, property and equipment.

In the first nine months of 2012, we received proceeds of \$295.0 million from our Credit Agreement to partially fund our purchase of S1. In addition, we received an additional \$24.0 million from the revolving portion of our Credit Agreement which we subsequently used to partially fund the repurchase of common stock warrants from IBM for \$29.6 million. We received \$11.9 million from IBM for the exercise of the remaining warrants not repurchased. We repaid \$9.4 million of the Term Credit Facility during the nine months ended September 30, 2012. In addition, during the first nine months of 2012, we received proceeds of \$19.5 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 \$57.8 million for the repurchases of common stock and \$2.9 million for the repurchase of restricted stock for tax withholdings. We also made payments to third-party institutions, primarily related to debt and capital leases, totaling \$6.9 million.

We may also 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.



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**Table of Contents***Debt*

As of September 30, 2012, we had \$190.6 million and \$194.0 million outstanding under our Term and Revolving Credit Facilities, respectively, with up to \$56 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 consolidated balance sheet. At September 30, 2012 (and at all times during these periods) we were in compliance with our debt covenants. The interest rate in effect at September 30, 2012 was 2.22%.

We are not currently dependent upon short-term funding, and the limited availability of credit in the market has not affected our Credit Agreement, our liquidity or materially impacted our funding costs. However, due to the existing uncertainty in the capital and credit markets and the impact of the current economic crisis on our operating results and financial conditions, the amount of available unused borrowings under our existing Revolving Credit Facility may be insufficient to meet our needs and/or our access to capital outside of our Credit Agreement may not be available on terms acceptable to us or at all.

*Stock Repurchase Program*

As of December 31, 2011, our board of directors has 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. Under the program to date, we have purchased 9,519,872 shares for approximately \$244.9 million. We purchased 1,437,692 shares for \$57.8 million during the nine months ended September 30, 2012.

On September 13, 2012, the Company's board of directors approved the repurchase of up to 2,500,000 shares of the Company's common stock, or up to \$113.0 million. On September 21, 2012, the Company agreed to repurchase 2,492,600 common stock warrants from IBM for \$29.6 million. See Note 16, International Business Machines Corporation Alliance Agreement, for further discussion on the warrants.

The maximum remaining dollar value of shares authorized for purchase under the stock repurchase program was approximately 1.8 million shares or \$76.3 million as of September 30, 2012.

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.

**Table of Contents****Contractual Obligations and Commercial Commitments**

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, 2011.

	Payments due by Period (amounts in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
<b>Contractual Obligations</b>					
Acquired operating lease obligations (1)	\$ 10,445	\$ 3,357	\$ 3,954	\$ 1,963	\$ 1,171
New operating lease obligations (2)	2,286	360	751	891	284
Revolving Credit Facility (3)	194,000			194,000	
Term Credit Facility (3)	190,625	15,625	55,000	120,000	
Revolving Credit Facility interest (4)	17,694	4,307	8,614	4,773	
Term Credit Facility interest (4)	13,503	4,097	6,757	2,649	
Financed internally used software (5)	12,200	2,900	6,100	3,200	
IBM termination fee (6)	2,996	2,996			
Total	\$ 443,749	\$ 33,642	\$ 81,176	\$ 327,476	\$ 1,455

- (1) Operating leases acquired as a result of the acquisitions.
  - (2) New operating lease obligations entered into during the nine months ended September 30, 2012.
  - (3) Increase in the Revolving Credit Facility and Term Credit Facility represent debt used to partially fund the S1 acquisition and the repurchase of the common stock warrants from IBM during the nine months ended September 30, 2012.
  - (4) Based upon the debt outstanding and interest rate in effect at September 30, 2012 of 2.22%.
  - (5) During the nine months ended September 30, 2012, the Company financed the five-year license agreement for certain internally-used software for \$14.8 million with annual payments due in April through 2016.
  - (6) Termination fee for IBM IT outsourcing agreement as discussed in Note 16 to the condensed consolidated financial statements.
- We are unable to reasonably estimate the ultimate amount or timing of settlement of our reserves for income taxes under Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 740, *Income Tax*. The liability for unrecognized tax benefits at September 30, 2012 is \$14.0 million. The amount of unrecognized tax benefits for uncertain tax positions increased by \$10.9 million during the nine months ended September 30, 2012 for the uncertain tax positions of S1, which were adjusted in the preliminary purchase price allocation.

**Critical Accounting Estimates**

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

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

Revenue Recognition

Allowance for Doubtful Accounts



Intangible Assets and Goodwill

Stock-Based Compensation

Accounting for Income Taxes

During the nine months ended September 30, 2012, 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, 2011, filed on February 22, 2012, for a more complete discussion of our critical accounting policies and estimates.

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

There have been no material changes to our market risk for the nine months ended September 30, 2012. We conduct business in all parts of the world and are thereby exposed to market risks related to fluctuations in foreign currency exchange rates. The U.S. dollar is the single largest currency in which our revenue contracts are denominated. Thus, any decline in the value of local foreign currencies against the U.S. dollar results in our products and services being more expensive to a potential foreign customer, and in those instances where our goods and services have already been sold, may result in the receivables being more difficult to collect. Additionally, any decline in the value of the U.S. dollar in jurisdictions where the revenue contracts are denominated in U.S. dollars and operating expenses are incurred in local currency will have an unfavorable impact to operating margins. We at times enter into revenue contracts that are denominated in the country's local currency, principally in South Africa, Australia, Canada, the United Kingdom and other European countries. This practice serves as a natural hedge to finance the local currency expenses incurred in those locations. We have not entered into any foreign currency hedging transactions. We do not purchase or hold any derivative financial instruments for the purpose of speculation or arbitrage.

The primary objective of our cash investment policy is to preserve principal without significantly increasing risk. Based on our cash investments and interest rates on these investments at September 30, 2012, 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.

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

Our management, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report, September 30, 2012. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of September 30, 2012.

*Changes in Internal Control over Financial Reporting*

On February 13, 2012, the Company completed its acquisition of S1 Corporation ( S1 ). The Company considers the transaction material to its results of operations, cash flows and financial position from the date of the acquisition through September 30, 2012 and believes the internal controls and procedures of S1 will have a material effect on the Company's internal control over financial reporting. See Note 2 Acquisitions to the Condensed Consolidated Financial Statements included in Item 1 for discussion of the acquisition and related financial data.

The Company is currently in the process of integrating S1 operations. The Company anticipates a successful integration of operations and internal controls over financial reporting. Management will continue to evaluate its internal control over financial reporting as it executes integration activities.

On April 1, 2012, the Company provided notice of termination for the Master Services Agreement with International Business Machines ( IBM ) to outsource our internal information technology environment. The effective date of the termination is January 31, 2013. The Company is in the process of transitioning controls related to global corporate infrastructure services including management of ACI's servers, storage, security platforms, data networks and end-user support services. The Company anticipates a successful transition of operations and internal controls over financial reporting. Management will continue to evaluate its internal control over financial reporting as it executes these transition activities.

Our management, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer evaluated any change in the Company's internal control over financial reporting that occurred during the quarter covered by this report and determined that except for the acquisition of S1 and the termination of the IBM agreement, there were no other changes in the Company's internal control over financial reporting during the quarter covered by this report that have materially affected, or is 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, 2011. Additional risks and uncertainties, including risks and uncertainties not presently known to us, or that we currently deem immaterial, could also have an adverse effect on our business, financial condition and/or results of operations.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Issuer Purchases of Equity Securities**

The following table provides information regarding the Company's repurchases of its common stock during the three months ended September 30, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
July 1 through July 31, 2012	161,687 (1)	\$ 43.81	160,000	\$ 23,947,000
August 1 through August 31, 2012	145,011 (1)	44.56	144,500	\$ 17,508,000
September 1 through September 30, 2012	18,034 (1)	44.65	7,400 (2)	\$ 76,305,000
Total	324,732	\$ 44.19	311,900	

- (1) Pursuant to our 2005 Incentive Plan, we granted restricted share awards ( RSAs ). These awards have requisite service periods of either three or four years and vest in increments of either 33% or 25% on the anniversary dates of the grants. Under each arrangement, stock is issued without direct cost to the employee. During the three months ended September 30, 2012, 41,837 shares of the RSAs vested. We withheld 12,832 of those shares to pay the employees' portion of applicable payroll taxes.
- (2) On September 13, 2012, the Company's board of directors approved the repurchase of up to 2,500,000 shares of the Company's common stock, or up to \$113.0 million. On September 21, 2012, the Company agreed to repurchase 2,492,600 common stock warrants from IBM for \$29.6 million funded under the stock repurchase program. See Note 16, International Business Machines Corporation Alliance Agreement, for further information on the common stock warrants. The maximum remaining authorized for purchase under the stock repurchase program was approximately 1.8 million shares or \$76.3 million as of September 30, 2012.

In fiscal 2005, we announced that our board of directors approved a stock repurchase program authorizing us, from time to time as market and business conditions warrant, to acquire up to \$80 million of our common stock, and that we intend to use existing cash and cash equivalents to fund these repurchases. In May 2006, our board of directors approved an increase of \$30 million to the stock repurchase program, bringing the total of the approved program to \$110 million. In March 2007, our board of directors approved an increase of \$100 million to its current repurchase authorization, bringing the total authorization to \$210 million. In February 2012, our board of directors approved an increase of \$52.1 million to its current stock repurchase authorization, bringing the total authorization to \$262.1 million. On September 13, 2012, the Company's board of directors approved the repurchase of up to 2,500,000 shares of the Company's common stock, or up to \$113.0 million, of which approximately 1.8 million shares or \$76.3 million remains available. There is no guarantee as to the exact number of shares that will be

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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.

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**Item 6. EXHIBITS**

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

Exhibit

Exhibit No.	Description
1 (1)	Amended and Restated Certificate of Incorporation of the Company, and amendments thereto
2 (2)	Amended and Restated Bylaws of the Company
1 (3)	Form of Common Stock Certificate
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
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
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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.SCH **	XBRL Taxonomy Extension Schema
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\* 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.

\*\* Furnished, not filed

- (1) Incorporated herein by reference to registrant's current report on Form 8-K filed July 30, 2007.
- (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: November 9, 2012

By:

*/s/ SCOTT W. BEHRENS  
Scott W. Behrens  
Executive Vice President, Chief Financial*

*Officer and Chief Accounting Officer*

*(Principal Financial Officer)*

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**EXHIBIT INDEX**

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