

ACI WORLDWIDE, INC.
Form 10-Q
July 30, 2015
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from

Commission File Number 0-25346

ACI WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

3520 Kraft Rd, Suite 300

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

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

(239) 403-4600
(Registrant's telephone number,
including area code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of July 27, 2015 there were 117,797,095 shares of the registrant's common stock outstanding.

Table of Contents**TABLE OF CONTENTS**

	Page
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	
<u>Condensed Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014</u>	3
<u>Condensed Consolidated Statements of Income for the three and six months ended June 30, 2015 and 2014</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2015 and 2014</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	38
Item 4. <u>Controls and Procedures</u>	39
PART II OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	39
Item 1A. <u>Risk Factors</u>	39
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
Item 3. <u>Defaults Upon Senior Securities</u>	40
Item 4. <u>Mine Safety Disclosures</u>	40
Item 5. <u>Other Information</u>	40
Item 6. <u>Exhibits</u>	41
<u>Signature</u>	42
<u>Exhibit Index</u>	43

Table of Contents

ACI WORLDWIDE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

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

	June 30, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 50,397	\$ 77,301
Receivables, net of allowances of \$5,058 and \$4,806, respectively	220,969	227,106
Deferred income taxes, net	55,998	44,349
Recoverable income taxes	4,107	4,781
Prepaid expenses	25,625	24,314
Other current assets	24,361	40,417
Total current assets	381,457	418,268
Property and equipment, net	58,309	60,360
Software, net	211,016	209,507
Goodwill	775,279	781,163
Intangible assets, net	248,960	261,436
Deferred income taxes, net	54,305	50,187
Other noncurrent assets, including \$33,824 at December 31, 2014 for assets at fair value	43,132	69,779
TOTAL ASSETS	\$ 1,772,458	\$ 1,850,700
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 36,284	\$ 50,351
Employee compensation	40,701	35,299
Current portion of long-term debt	95,293	87,352
Deferred revenue	135,799	131,808
Income taxes payable	1,765	6,276
Deferred income taxes, net	282	225
Other current liabilities	58,186	67,505
Total current liabilities	368,310	378,816
Noncurrent liabilities		
Deferred revenue	46,291	49,224
Long-term debt	712,937	804,583
Deferred income taxes, net	15,888	13,217
Other noncurrent liabilities	30,472	23,455

Total liabilities	1,173,898	1,269,295
Commitments and contingencies (Note 13)		
Stockholders equity		
Preferred stock; \$0.01 par value; 5,000,000 shares authorized; no shares issued and outstanding at June 30, 2015 and December 31, 2014		
Common stock; \$0.005 par value; 280,000,000 shares authorized; 139,820,388 shares issued at June 30, 2015 and December 31, 2014	698	698
Additional paid-in capital	549,866	551,713
Retained earnings	358,304	331,415
Treasury stock, at cost, 22,021,238 and 24,182,584 shares at June 30, 2015 and December 31, 2014, respectively	(258,910)	(282,538)
Accumulated other comprehensive loss	(51,398)	(19,883)
Total stockholders equity	598,560	581,405
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 1,772,458	\$ 1,850,700

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 INCOME

(unaudited and in thousands, except per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Revenues				
License	\$ 67,161	\$ 61,377	\$ 106,738	\$ 97,079
Maintenance	60,141	62,309	119,633	124,808
Services	23,110	24,991	46,607	47,579
Hosting	115,410	106,131	225,661	206,815
Total revenues	265,822	254,808	498,639	476,281
Operating expenses				
Cost of license (1)	5,939	6,897	12,048	12,633
Cost of maintenance, services and hosting (1)	120,484	112,595	233,497	220,482
Research and development	39,425	38,876	76,516	76,332
Selling and marketing	31,298	28,007	60,209	55,916
General and administrative	25,008	24,682	46,583	49,798
Depreciation and amortization	20,004	17,010	39,697	34,088
Total operating expenses	242,158	228,067	468,550	449,249
Operating income	23,664	26,741	30,089	27,032
Other income (expense)				
Interest expense	(10,505)	(9,329)	(21,446)	(18,504)
Interest income	58	135	160	334
Other, net	19,659	(3,901)	23,381	(4,958)
Total other income (expense)	9,212	(13,095)	2,095	(23,128)
Income before income taxes	32,876	13,646	32,184	3,904
Income tax expense (benefit)	5,825	2,409	5,295	(1,558)
Net income	\$ 27,051	\$ 11,237	\$ 26,889	\$ 5,462
Income per common share				
Basic	\$ 0.23	\$ 0.10	\$ 0.23	\$ 0.05
Diluted	\$ 0.23	\$ 0.10	\$ 0.23	\$ 0.05
Weighted average common shares outstanding				

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

Basic	117,109	113,907	116,584	114,663
Diluted	118,575	115,977	118,088	116,812

(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)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income	\$ 27,051	\$ 11,237	\$ 26,889	\$ 5,462
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities	(2,005)		1,488	
Reclassification of unrealized gain to realized gain on available-for-sale securities	(24,465)		(24,465)	
Foreign currency translation adjustments	9,944	6,318	(8,538)	9,219
Total other comprehensive income (loss)	(16,526)	6,318	(31,515)	9,219
Comprehensive income (loss)	\$ 10,525	\$ 17,555	\$ (4,626)	\$ 14,681

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)

	For the Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 26,889	\$ 5,462
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	10,588	10,558
Amortization	36,605	30,591
Amortization of deferred debt issuance costs	3,212	2,680
Deferred income taxes	(3,961)	(12,134)
Stock-based compensation expense	9,291	9,188
Excess tax benefit of stock options exercised	(4,407)	(4,382)
Gain on sale of available-for-sale securities	(24,465)	
Other	1,456	671
Changes in operating assets and liabilities, net of impact of acquisitions:		
Receivables	(3,411)	(9,279)
Accounts payable	(7,016)	(3,203)
Accrued employee compensation	7,240	659
Current income taxes	(3,635)	4,728
Deferred revenue	2,653	20,337
Other current and noncurrent assets and liabilities	(1,106)	(7,553)
Net cash flows from operating activities	49,933	48,323
Cash flows from investing activities:		
Purchases of property and equipment	(13,408)	(8,319)
Purchases of software and distribution rights	(8,496)	(6,991)
Proceeds from sale of available-for-sale equity securities	35,311	
Other	(7,000)	(1,500)
Net cash flows from investing activities	6,407	(16,810)
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,524	1,338
Proceeds from exercises of stock options	10,634	4,117
Excess tax benefit of stock options exercised	4,407	4,382
Repurchases of common stock		(70,000)
Repurchase of restricted stock and performance shares for tax withholdings	(4,047)	(4,533)
Proceeds from revolving credit facility	65,000	50,000
Repayment of revolving credit facility	(109,000)	(35,000)

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

Repayment of term portion of credit agreement	(39,706)	(17,742)
Payments on other debt	(10,120)	(6,687)
Payment for debt issuance costs		(163)
Distribution to noncontrolling interest		(1,391)
Net cash flows from financing activities	(81,308)	(75,679)
Effect of exchange rate fluctuations on cash	(1,936)	4,089
Net decrease in cash and cash equivalents	(26,904)	(40,077)
Cash and cash equivalents, beginning of period	77,301	95,059
Cash and cash equivalents, end of period	\$ 50,397	\$ 54,982
Supplemental cash flow information		
Income taxes paid, net	\$ 13,875	\$ 13,176
Interest paid	\$ 18,181	\$ 15,630

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 June 30, 2015, and for the three and six months ended June 30, 2015 and 2014, 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 mat