

ACI WORLDWIDE, INC.
Form 10-Q
November 03, 2016
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

or

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

For the transition period from _____

Commission File Number 0-25346

ACI WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)

Delaware	47-0772104
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3520 Kraft Rd, Suite 300	
Naples, FL 34105	(239) 403-4600
(Address of principal executive offices, including zip code)	(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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of October 31, 2016, there were 117,289,225 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 September 30, 2016 and December 31, 2015</u>	2
<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2016 and 2015</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	44
Item 4. <u>Controls and Procedures</u>	45
PART II OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	45
Item 1A. <u>Risk Factors</u>	45
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
Item 3. <u>Defaults Upon Senior Securities</u>	46
Item 4. <u>Mine Safety Disclosures</u>	46
Item 5. <u>Other Information</u>	46
Item 6. <u>Exhibits</u>	47
<u>Signature</u>	48
<u>Exhibit Index</u>	49

Table of Contents

ACI WORLDWIDE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 50,912	\$ 102,239
Receivables, net of allowances of \$3,829 and \$5,045, respectively	159,409	219,116
Recoverable income taxes	5,318	12,048
Prepaid expenses	28,825	27,461
Other current assets	18,304	21,637
Total current assets	262,768	382,501
Noncurrent assets		
Property and equipment, net	78,894	60,630
Software, net	188,743	237,941
Goodwill	915,857	913,261
Intangible assets, net	212,393	256,925
Deferred income taxes, net	99,365	90,872
Other noncurrent assets	44,166	33,658
TOTAL ASSETS	\$ 1,802,186	\$ 1,975,788
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 38,124	\$ 55,420
Employee compensation	48,647	31,213
Current portion of long-term debt	90,270	89,710
Deferred revenue	116,990	128,559
Income taxes payable	3,113	4,734
Other current liabilities	55,079	75,225
Total current liabilities	352,223	384,861
Noncurrent liabilities		
Deferred revenue	40,720	42,081
Long-term debt	652,387	834,449
Deferred income taxes, net	24,055	28,067
Other noncurrent liabilities	38,039	31,930
Total liabilities	1,107,424	1,321,388

Commitments and contingencies (Note 14)

Stockholders equity

Preferred stock; \$0.01 par value; 5,000,000 shares authorized; no shares issued at September 30, 2016 and December 31, 2015		
Common stock; \$0.005 par value; 280,000,000 shares authorized; 140,525,055 shares issued at September 30, 2016 and December 31, 2015	702	702
Additional paid-in capital	590,009	561,379
Retained earnings	479,040	416,851
Treasury stock, at cost, 23,247,854 and 21,491,285 shares at September 30, 2016 and December 31, 2015, respectively	(298,526)	(252,956)
Accumulated other comprehensive loss	(76,463)	(71,576)
Total stockholders equity	694,762	654,400
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 1,802,186	\$ 1,975,788

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)

For the Three Months Ended For the Nine Months Ended

	September 30,		September 30,	
	2016	2015	2016	2015
Revenues				
License	\$ 43,256	\$ 50,237	\$ 114,189	\$ 156,975
Maintenance	57,741	59,262	175,404	178,895
Services	19,809	25,842	63,208	72,449
Hosting	96,169	103,360	310,170	329,021
Total revenues	216,975	238,701	662,971	737,340
Operating expenses				
Cost of license (1)	5,253	5,387	15,302	17,435
Cost of maintenance, services and hosting (1)	95,014	104,272	318,783	337,769
Research and development	42,210	36,123	132,235	112,639
Selling and marketing	29,874	28,451	88,661	88,660
General and administrative	31,390	20,284	91,978	66,867
Gain on sale of CFS assets	489		(151,463)	
Depreciation and amortization	22,098	20,298	66,688	59,995
Total operating expenses	226,328	214,815	562,184	683,365
Operating income (loss)	(9,353)	23,886	100,787	53,975
Other income (expense)				
Interest expense	(9,838)	(9,728)	(29,967)	(31,174)
Interest income	145	94	416	254
Other	2,794	4,314	4,483	27,695
Total other income (expense)	(6,899)	(5,320)	(25,068)	(3,225)
Income (loss) before income taxes	(16,252)	18,566	75,719	50,750
Income tax expense (benefit)	(6,426)	3,786	12,875	9,081
Net income (loss)	\$ (9,826)	\$ 14,780	\$ 62,844	\$ 41,669
Earnings (loss) per common share				
Basic	\$ (0.08)	\$ 0.13	\$ 0.53	\$ 0.36
Diluted	\$ (0.08)	\$ 0.12	\$ 0.53	\$ 0.35

Weighted average common shares outstanding

Basic	116,118	117,922	117,606	117,035
Diluted	116,118	119,304	118,971	118,498

(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		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income (loss)	\$ (9,826)	\$ 14,780	\$ 62,844	\$ 41,669
Other comprehensive income (loss):				
Unrealized gain on available-for-sale securities				1,488
Reclassification of unrealized gain to realized gain on available-for-sale securities				(24,465)
Foreign currency translation adjustments	(2,228)	(16,822)	(4,887)	(25,360)
Total other comprehensive loss	(2,228)	(16,822)	(4,887)	(48,337)
Comprehensive income (loss)	\$ (12,054)	\$ (2,042)	\$ 57,957	\$ (6,668)

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 Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 62,844	\$ 41,669
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	16,130	15,919
Amortization	59,708	54,929
Amortization of deferred debt issuance costs	4,198	4,754
Deferred income taxes	(1,561)	3,773
Stock-based compensation expense	33,812	10,050
Gain on sale of available-for-sale securities		(24,465)
Gain on sale of CFS assets	(151,463)	
Other, net	(407)	2,467
Changes in operating assets and liabilities, net of impact of acquisitions and divestiture:		
Receivables	34,784	31,566
Accounts payable	(15,898)	(5,441)
Accrued employee compensation	18,260	7,141
Current income taxes	5,691	(8,080)
Deferred revenue	3,663	(4,813)
Other current and noncurrent assets and liabilities	(4,905)	(5,626)
Net cash flows from operating activities	64,856	123,843
Cash flows from investing activities:		
Purchases of property and equipment	(34,429)	(19,546)
Purchases of software and distribution rights	(19,211)	(12,017)
Proceeds from sale of available-for-sale equity securities		35,311
Proceeds from sale of CFS assets	199,481	
Other	(7,000)	(7,000)
Net cash flows from investing activities	138,841	(3,252)
Cash flows from financing activities:		
Proceeds from issuance of common stock	2,395	2,298
Proceeds from exercises of stock options	8,749	11,554