ACI WORLDWIDE, INC.
Form 10-Q
July 27, 2017
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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 June 30, 2017

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 24, 2017, there were 118,204,804 shares of the registrant s common stock outstanding.

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ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	June 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 95,357	$ 75,753
Receivables, net of allowances of $3,468 and $3,873, respectively	195,154	268,162
Recoverable income taxes	7,192	4,614
Prepaid expenses	27,190	25,884
Other current assets	20,584	33,578
Total current assets	345,477	407,991
Noncurrent assets		
Property and equipment, net	77,794	78,950
Software, net	171,476	185,496
Goodwill	915,184	909,691
Intangible assets, net	198,192	203,634
Deferred income taxes, net	111,843	77,479
Other noncurrent assets	38,337	39,054
TOTAL ASSETS	$ 1,858,303	$ 1,902,295
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 36,050	$ 42,873
Employee compensation	44,220	47,804
Current portion of long-term debt	17,774	90,323
Deferred revenue	106,147	105,191
Income taxes payable	5,135	11,334
Other current liabilities	103,867	78,841
Total current liabilities	313,193	376,366
Noncurrent liabilities		
Deferred revenue	52,184	49,863
Long-term debt	674,803	653,595
Deferred income taxes, net	24,492	26,349
Other noncurrent liabilities	35,731	41,205
Total liabilities	1,100,403	1,147,378

Commitments and contingencies (Note 12)

Stockholders equity		
Preferred stock; $0.01 par value; 5,000,000 shares authorized; no shares issued at June 30, 2017 and December 31, 2016		
Common stock; $0.005 par value; 280,000,000 shares authorized; 140,525,055 shares issued at June 30, 2017 and December 31, 2016	702	702
Additional paid-in capital	611,791	600,344
Retained earnings	514,314	545,731
Treasury stock, at cost, 22,359,090 and 23,188,258 shares at June 30, 2017 and December 31, 2016, respectively	(289,927)	(297,760)
Accumulated other comprehensive loss	(78,980)	(94,100)
Total stockholders equity	757,900	754,917
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,858,303	$ 1,902,295

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

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ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues				
Software as a service and platform as a service	$ 113,469	$ 102,265	$ 212,916	$ 214,001
License	54,180	33,510	113,561	70,933
Maintenance	56,009	60,332	110,480	117,663
Services	16,941	23,823	35,104	43,399
Total revenues	240,599	219,930	472,061	445,996
Operating expenses				
Cost of revenue (1)	120,357	115,384	228,900	233,818
Research and development	34,969	46,421	72,254	90,025
Selling and marketing	28,817	28,795	55,954	58,787
General and administrative	72,527	34,520	105,030	60,588
Gain on sale of CFS assets				(151,952)
Depreciation and amortization	22,372	21,382	44,743	44,590
Total operating expenses	279,042	246,502	506,881	335,856
Operating income (loss)	(38,443)	(26,572)	(34,820)	110,140
Other income (expense)				
Interest expense	(10,664)	(9,715)	(20,824)	(20,129)
Interest income	150	121	256	271
Other	(1,766)	2,023	(1,117)	1,689
Total other income (expense)	(12,280)	(7,571)	(21,685)	(18,169)
Income (loss) before income taxes	(50,723)	(34,143)	(56,505)	91,971
Income tax expense (benefit)	(20,914)	(17,669)	(25,088)	19,301
Net income (loss)	$ (29,809)	$ (16,474)	$ (31,417)	$ 72,670
Earnings (loss) per common share				
Basic	$ (0.25)	$ (0.14)	$ (0.27)	$ 0.62
Diluted	$ (0.25)	$ (0.14)	$ (0.27)	$ 0.61
Weighted average common shares outstanding				

Basic	117,149	115,480	116,881	117,810
Diluted	117,149	115,480	116,881	119,023

(1) The cost of revenue excludes charges for depreciation but includes amortization of purchased and developed software for resale.

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

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ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited and in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Net income (loss)	$ (29,809)	$ (16,474)	$ (31,417)	$ 72,670
Other comprehensive income (loss):				
Foreign currency translation adjustments	9,069	(8,774)	15,120	(2,659)
Total other comprehensive income (loss)	9,069	(8,774)	15,120	(2,659)
Comprehensive income (loss)	$ (20,740)	$ (25,248)	$ (16,297)	$ 70,011

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

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ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	For the Six Months Ended June 30,	
	2017	**2016**
Cash flows from operating activities:		
Net income (loss)	$ (31,417)	$ 72,670
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation	12,573	10,583
Amortization	38,646	40,272
Amortization of deferred debt issuance costs	2,760	2,826
Deferred income taxes	(30,121)	3,578
Stock-based compensation expense	14,640	23,018
Gain on sale of CFS assets		(151,952)
Other	443	(762)
Changes in operating assets and liabilities, net of impact of acquisitions:		
Receivables	70,564	29,299
Accounts payable	(3,929)	(3,247)
Accrued employee compensation	(4,260)	11,946
Current income taxes	(9,592)	10,508
Deferred revenue	841	8,919
Other current and noncurrent assets and liabilities	37,949	(89)
Net cash flows from operating activities	99,097	57,569
Cash flows from investing activities:		
Purchases of property and equipment	(11,809)	(20,728)
Purchases of software and distribution rights	(14,426)	(12,384)
Proceeds from sale of CFS assets		200,000
Other		(7,000)
Net cash flows from investing activities	(26,235)	159,888
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,441	1,532
Proceeds from exercises of stock options	7,949	7,986
Repurchase of restricted stock for tax withholdings	(4,770)	(1,446)
Repurchases of common stock		(60,089)
Proceeds from revolving credit facility	12,000	
Repayment of revolving credit facility	(100,000)	(156,000)
Proceeds from term portion of credit agreement	415,000	

Repayment of term portion of credit agreement	(375,665)	(47,646)
Payment of debt issuance costs	(5,340)	
Payments on other debt and capital leases	(6,021)	(10,210)
Net cash flows from financing activities	(55,406)	(265,873)
Effect of exchange rate fluctuations on cash	2,148	(1,360)
Net increase (decrease) in cash and cash equivalents	19,604	(49,776)
Cash and cash equivalents, beginning of period	75,753	102,239
Cash and cash equivalents, end of period	$ 95,357	$ 52,463
Supplemental cash flow information		
Income taxes paid, net	$ 19,605	$ 5,857
Interest paid	$ 16,937	$ 17,772

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

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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, 2017, and for the three and six months ended June 30, 2017 and 2016, 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, 2016 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, 2016, filed on March 1, 2017. Results for the three and six months ended June 30, 2017 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.

Receivables, net

Receivables represent amounts billed and amounts earned that are to be billed in the near future. Included in accrued receivables are services, software as a service (SaaS) and platform as a service (Platform) revenues earned in the current period but billed in a subsequent period as well as license revenues that are determined to be fixed and determinable but billed in future periods.

(in thousands)	June 30, 2017	December 31, 2016
Billed Receivables	$ 174,109	$ 250,116
Allowance for doubtful accounts	(3,468)	(3,873)
Billed, net	170,641	246,243
Accrued Receivables	24,513	21,919
Receivables, net	$ 195,154	$ 268,162

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Other Current Assets and Other Current Liabilities

(in thousands)	June 30, 2017	December 31, 2016
Settlement deposits	$ 6,299	$ 10,496
Settlement receivables	2,695	14,327
Other	11,590	8,755
Total other current assets	$ 20,584	$ 33,578

(in thousands)	June 30, 2017	December 31, 2016
Settlement payables	$ 8,997	$ 24,016
Accrued interest	7,213	7,356
Vendor financed licenses	5,535	9,213
Royalties payable	7,018	7,197
BHMI judgment	48,143	
Other	26,961	31,059
Total other current liabilities	$ 103,867	$ 78,841

Individuals and businesses settle their obligations to the Company s various clients, primarily utility and other public sector clients, using credit or debit cards or via ACH payments. The Company creates a receivable for the amount due from the credit or debit card company and an offsetting payable to the client. Once confirmation is received that the funds have been received, the Company settles the obligation to the client. Due to timing, in some instances, the Company may receive the funds into bank accounts controlled by and in the Company s name that are not disbursed to its clients by the end of the day resulting in a settlement deposit on the Company s books.

Off Balance Sheet Accounts

The Company also enters into agreements with certain clients to process payment funds on their behalf. When an automated clearing house or automated teller machine network payment transaction is processed, a transaction is initiated to withdraw funds from the designated source account and deposit them into a settlement account, which is a trust account maintained for the benefit of the Company s clients. A simultaneous transaction is initiated to transfer funds from the settlement account to the intended destination account. These back to back transactions are designed to settle at the same time, usually overnight, such that the Company receives the funds from the source at the same time as it sends the funds to their destination. However, due to the transactions being with various financial institutions there may be timing differences that result in float balances. These funds are maintained in accounts for the benefit of the client which is separate from the Company s corporate assets. As the Company does not take ownership of the funds, the settlement accounts are not included in the Company s balance sheet. The Company is entitled to interest earned on the fund balances. The collection of interest on these settlement accounts is considered in the Company s determination of its fee structure for clients and represents a portion of the payment for services performed by the Company. The amount of settlement funds as of June 30, 2017 and December 31, 2016 were $262.8 million and $270.0 million, respectively.

Fair Value

The fair value of the Company s Credit Agreement approximates the carrying value due to the floating interest rate (Level 2 of the fair value hierarchy). The Company measures the fair value of its Senior Notes based on Level 2 inputs, which include quoted market prices and interest rate spreads of similar securities. The fair value of the Company s Senior Notes was $306.8 million and $309.8 million at June 30, 2017 and December 31, 2016, respectively.

The fair values of cash and cash equivalents approximate the carrying values due to the short period of time to maturity (Level 2 of the fair value hierarchy).

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Goodwill

Changes in the carrying amount of goodwill attributable to each reporting unit with goodwill balances during the six months ended June 30, 2017 were as follows:

(in thousands)	Americas	EMEA	Asia/Pacific	Total
Gross Balance prior to December 31, 2016	$ 524,829	$ 374,130	$ 58,164	$ 957,123
Total impairment prior to December 31, 2016	(47,432)			(47,432)
Balance, December 31, 2016	477,397	374,130	58,164	909,691
Foreign currency translation adjustments	32	2,515	2,946	5,493
Balance, June 30, 2017	$ 477,429	$ 376,645	$ 61,110	$ 915,184

In accordance with the Accounting Standards Codification (ASC 350), *Intangibles Goodwill and Other,* we assess goodwill for impairment annually during the fourth quarter of our fiscal year using October 1 balances or when there is evidence that events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. Recoverability of goodwill is measured using a discounted cash flow model incorporating discount rates commensurate with the risks involved. Use of a discounted cash flow model is common practice in impairment testing in the absence of available transactional market evidence to determine the fair value. The calculated fair value was substantially in excess of the current carrying value for all reporting units based upon our October 1, 2016 annual impairment test and there have been no indications of impairment in the subsequent periods.

The Company evaluates goodwill at the reporting unit level, and as discussed in Note 10, *Segment Information*, during the first quarter of 2017, it announced a change in organizational structure to better align with the Company s strategic direction. This change in the Company s operating segments will also result in a change in reporting units. The Company is currently in the process of calculating the allocation of goodwill for the new reporting units, which are expected to coincide with the new operating segments ACI On Demand and ACI On Premise.

Recently Issued Accounting Standards Not Yet Effective

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (*codified as ASC 606 *)*. ASC 606 will supersede the revenue recognition requirements in Accounting Standard Codification 605, *Revenue Recognition*, and most industry-specific guidance. The standard requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB deferred the effective date to fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. The Company will adopt the standard effective January 1, 2018. The standard permits the use of either the retrospective or modified retrospective transition method. The Company expects to adopt the standard under the modified retrospective transition method which will result in an adjustment to retained earnings for the cumulative effect, if any, of applying the standard to active contracts as of the adoption date. As this method does not result in recast of the prior year financial statements, ASC 606 requires the Company to provide additional disclosures during the year of adoption for the amount by which each financial statement line item is affected by adoption of the new standard and explanation of the reasons for significant changes.

During 2016, the Company began its detailed assessment of the impact of ASC 606 and completed its initial assessment of the impact on its license, maintenance, and services revenues. This assessment continued during the six months ended June 30, 2017, with increased focus on the impact of ASC 606 on SaaS and Platform revenues, detailed review of customer contracts under ASC 606 for each revenue stream, identification of key data requirements for contract reviews and required changes to processes, systems and internal controls. The Company has considered the data required to comply with the expanded disclosures required under the new standard and has begun the process of identifying and resolving any data gaps. The Company continues to evaluate the impact of the standard on its consolidated financial statements and related disclosures and is actively engaged in the process of quantifying the impact of adopting the new standard. The Company currently believes that the most significant impacts relate to changes in the timing of recognition for software license revenues and sales commission expenses and the expanded qualitative and quantitative disclosures required under the new standard. The Company expects revenue related to maintenance, services, and SaaS and Platform to remain substantially unchanged.

As it relates to software license revenues, under ASC 606 the Company expects to recognize revenue in advance of billings for software license arrangements with extended payment terms as opposed to when payments become due and payable. Additionally, the Company expects that those same software license arrangements may contain a significant financing component which could result in a change in the amount of the contract value that is allocated to software license revenue. Because the requirement to have vendor-specific objective evidence (VSOE) of fair value for undelivered elements is eliminated under the new standard, the Company expects the amounts allocated to software license, maintenance and services revenues for most software license arrangements to be recognized as each element is delivered or provided to the customer. Under current U.S. GAAP, when software license arrangements include post contract customer support (maintenance or PCS) terms that fail to achieve VSOE of fair value the Company recognizes all revenues in the arrangement ratably over a longer service period.

The Company has determined that its SaaS-based and Platform-based arrangements represent a single promise to provide continuous access (i.e. a stand-ready obligation) to its software solutions and their processing capabilities in the form of a service through one of the Company s data centers. As each day of providing access to the software solution(s) is substantially the same and the customer simultaneously receives and consumes the benefits as access is provided, the Company has determined that its SaaS-based and Platform-based arrangements include a single performance obligation comprised of a series of distinct services. The Company s SaaS-based and Platform-based arrangements may include fixed consideration, variable consideration or a combination of the two. Variable consideration in these arrangements is typically a function of a tier-based pricing structure that provides that customer with levels of transaction volume that reset with varying frequencies (e.g. monthly, quarterly or annually) and the corresponding rate per transaction within each level. Depending upon the structure of a particular arrangement, the Company will either: (1) allocate the variable amount to each distinct service period within the series and recognize revenue as each distinct service period is performed (i.e. direct allocation), (2) estimate total variable consideration at contract inception (giving consideration to any constraints that may apply) and recognize the total transaction price over the period to which it relates or (3) apply right to invoice practical expedient. At this time, the Company believes that revenue from most of its SaaS-based and Platform-based arrangements will be recognized under the direct allocation method or by applying the right to invoice practical expedient, which will result in the same pattern of recognition as under current U.S. GAAP.

The Company has determined that most of its sales commissions meet the definition of incremental costs of obtaining a contract. Accordingly, the costs associated with those sales commissions will be capitalized and expense recognized as the related goods or services are transferred to the customer. The Company currently recognizes sales commission expenses as they are incurred.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the impact the adoption of ASU 2016-02 will have on its financial position, results of operations, and cash flow.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows Classification of Certain Cash Receipts and Cash Payments,* an update that addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows. Among the cash flow matters addressed in the update are payments for costs related to debt prepayments or extinguishments, payments related to settlement of certain types of debt instruments, payments of contingent consideration made after a business combination, proceeds from insurance claims and corporate-owned life insurance policies, and distributions received from equity method investees, among others. The standard is effective for fiscal year beginning after December 31, 2017, including interim periods within that fiscal year. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period, and all of the amendments must be adopted together in the same period. The amendments will be applied using a retrospective transition method to each period presented, unless impracticable for specific cash flow matters, in which case the amendments would be applied prospectively as of the earliest date practicable. The Company does not expect the impact of ASU 2016-15 to be material to its consolidated statement of cash flows.

In October 2016, the FASB issued ASU 2016-16, *Intra-Entity Transfers of Assets Other than Inventory*, to simplify the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Currently, U.S. GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This prohibition on recognition is an exception to the principle of comprehensive recognition of current and deferred income taxes in U.S. GAAP. The limited amount of authoritative guidance about the exception has led to diversity in practice and is a source of complexity in financial reporting, particularly for an intra-entity transfer of intellectual property. Under the amendments of ASU 2016-16, an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, this amendment eliminates the exception for an intra-entity transfer of an asset other than inventory. The standard is effective for fiscal year beginning after December 15, 2017, including interim reporting periods within that fiscal year. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance. The amendments to this ASU should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently assessing the impact of ASU 2016-16 on its financial position, results of operations, and cash flow.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, an update that eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities, including unrecognized assets and liabilities. Under the amendments in ASU 2017-04, an entity should perform its annual or interim goodwill test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit s fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. The standard is effective for annual or interim goodwill impairment tests in fiscal years beginning December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently assessing the impact of ASU 2017-04 on its annual goodwill impairment test and possible early adoption.

In May 2017, the FASB issued ASU 2017-09, *Scope of Modification Accounting*, an update that provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting under ASC 718, *Compensation Stock Compensation*. Under the amendments in ASU 2017-09, an entity should account for the effects of a modification unless all of the following criteria are met: 1) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified if the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification; 2) the vesting conditions of the modified award are the same as the conditions of the original award immediately before the original award is modified; 3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period for which financial statements have not yet been issued. The Company has elected to early adopt these amendments prospectively in the second quarter of 2017. The adoption did not have a material effect on the Company s financial position, results of operations, or cash flow as of and for the three and six months ended June 30, 2017.

2. Divestiture

Community Financial Services

On March 3, 2016, the Company completed the sale of its Community Financial Services (CFS) related assets and liabilities, to Fiserv, Inc. (Fiserv) for $200.0 million. The sale of CFS, which was not aligned with the Company s long-term strategy, is part of the Company s ongoing efforts to expand as a provider of software products, SaaS and Platform solutions facilitating real-time electronic and eCommerce payments for large financial institutions, intermediaries, retailers, and billers worldwide. The sale included employee agreements and customer contracts as well as technology assets and intellectual property.

For the six months ended June 30, 2016, the Company recognized a net after-tax gain of $93.7 million on the sale of assets to Fiserv.

The Company and Fiserv also entered into a Transition Services Agreement (TSA), whereby the Company continues to perform certain functions on Fiserv s behalf during a migration period of approximately 18 months from the date of the sale. The TSA is meant to reimburse the Company for direct costs incurred in order to provide such functions which are no longer generating revenue for the Company.

3. Debt

As of June 30, 2017, the Company had $404.6 million and $300.0 million outstanding under its Term Credit Facility and Senior Notes, respectively, with up to $495.0 million of unused borrowings under the Revolving Credit Facility portion of the Credit Agreement, as amended, and up to $5.0 million of unused borrowings under the Letter of Credit agreement. The amount of unused borrowings actually available varies in accordance with the terms of the agreement.

Credit Agreement

On February 24, 2017, the Company entered into an amended and restated credit agreement (the Credit Agreement), replacing the existing agreement, with a syndicate of financial institutions, as lenders, and Bank of America, N.A. (BofA), as Administrative Agent, providing for revolving loans, swingline loans, letters of credit, and a term loan. The Credit Agreement consists of a five-year $500.0 million senior secured revolving credit facility (the Revolving Credit Facility), which includes a sublimit for the issuance of standby letters of credit and a sublimit for swingline loans, and $415.0 million under the five-year senior secured term loan facility (the Term Credit Facility and, together with the Revolving Credit Facility, the Credit Facility). The Credit Agreement also allows the Company to request optional incremental term loans and increases in the revolving commitment.

The loans under the Credit Facility may be made to, and the letters of credit under the Revolving Credit Facility may be issued on behalf of the Company. On February 24, 2017, the Company borrowed an aggregate principal amount of $12.0 million under the Revolving Credit Facility and borrowed $415.0 million under the Term Credit Facility.

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 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 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 Credit Facility is, based on the calculation of the applicable consolidated total leverage ratio, between 0.25% to 1.25% with respect to base rate borrowings and between 1.25% and 2.25% with respect to LIBOR rate borrowings. Interest is due and payable monthly. The interest rate in effect at June 30, 2017 for the Credit Facility was 3.23%.

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 rate borrowings under the Revolving Credit Facility on a per annum basis, payable quarterly in arrears, as well as customary fronting fees for the issuance of letters of credit fees and agency fees.

The Company s obligations under the Credit Facility and certain hedging arrangements and cash management arrangements entered into with lenders under the Credit Facility (or affiliates thereof) and the obligations of the subsidiary guarantors 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 Worldwide Corp. 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, in each case subject to certain exclusions set forth in the credit documentation governing the Credit Facility.

The Credit Agreement contains a number of covenants that, among other things and subject to certain exceptions, restrict the Company s ability and, as applicable, the ability of its subsidiaries to: create, incur, assume or suffer to exist any additional indebtedness; create, incur, assume or suffer to exist any liens; enter into agreements and other arrangements that include negative pledge clauses; pay dividends on capital stock or redeem, repurchase or retire capital stock or subordinated indebtedness; create restrictions on the payment of dividends or other distributions by subsidiaries; make investments, loans, advances and acquisitions; merge, consolidate or enter into any similar combination or sell assets, including equity interests of the subsidiaries; enter into sale and leaseback transactions; directly or indirectly engage in transactions with affiliates; alter in any material respect the character or conduct of the business; enter into amendments of or waivers under subordinated indebtedness, organizational documents and certain other material agreements; and hold certain assets and incur certain liabilities.

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.

Letter of Credit

On February 29, 2016, the Company entered into a standby letter of credit (the Letter of Credit), under the terms of the Credit Agreement, for $25.0 million. On October 26, 2016, the Letter of Credit was renewed at $7.5 million. On June 15, 2017, the Letter of Credit was renewed at $5.0 million, which expires on September 30, 2017. At any time the Company may request to close the Letter of Credit. The Letter of Credit reduces the maximum available borrowings under the Revolving Credit Facility to $495.0 million. Upon expiration of the Letter of Credit, maximum borrowing capacity will be $500.0 million.

Senior Notes

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

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Maturities on long-term debt outstanding at June 30, 2017 are as follows:

Fiscal year ending December 31, (in thousands)	
2017	$ 10,375
2018	20,750
2019	31,125
2020	331,125
2021	41,500
Thereafter	269,750
Total	$ 704,625

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

The Credit Facility will mature on February 24, 2022 and the Senior Notes will mature on August 15, 2020. The Revolving Credit Facility and Senior Notes do not amortize and the Term Credit Facility does amortize, with principal payable in consecutive quarterly installments.

The Credit Agreement and Senior Notes contain certain customary affirmative covenants and negative covenants that limit or restrict, subject to certain exceptions, the incurrence of liens, indebtedness of subsidiaries, mergers, advances, investments, acquisitions, transactions with affiliates, change in nature of business and the sale of the assets. The Company is also required to maintain a consolidated leverage ratio at or below a specified amount and an interest coverage ratio at or above a specified amount. If an event of default, as specified in the Credit Agreement and Senior Notes agreement, shall occur and be continuing, the Company may be required to repay all amounts outstanding under the Credit Facility and Senior Notes. On June 27, 2017, the Company and the Administrative Agent entered into an amendment to the Credit Agreement. The amendment revised the definition of Consolidated EBITDA to exclude the expense from the BHMI judgment and related fees, expenses, and interest thereto, up to $50 million from the calculation in the period recorded. As of June 30, 2017, and at all times during the period, the Company was in compliance with its financial debt covenants.

(in thousands)	**As of June 30, 2017**	**As of December 31, 2016**
Term Credit Facility	$ 404,625	$ 365,290
Revolving Credit Facility		88,000
6.375% Senior Notes, due August 2020	300,000	300,000
Debt issuance costs	(12,048)	(9,372)
Total debt	692,577	743,918
Less current portion of Term Credit Facility	20,750	95,293
Less current portion of debt issuance costs	(2,976)	(4,970)

Total long-term debt	$ 674,803	$ 653,595

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 4,500,000 shares of the Company s common stock have been reserved for issuance to eligible employees. Participating employees are permitted to designate up to the lesser of $25,000 or 10% of their annual base compensation for the purchase of common stock under the ESPP. Purchases under the ESPP are made one calendar month after the end of each fiscal quarter. The price for shares of common stock purchased under the ESPP is 85% of the stock s fair market value on the last business day of the three-month participation period. Shares issued under the ESPP during the six months ended June 30, 2017 and 2016 totaled 84,294 and 96,350, respectively.

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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, 2016	6,791,375	$ 15.54		
Granted	864,800	20.12		
Exercised	(608,157)	13.07		
Forfeited	(186,190)	18.50		
Expired	(17,507)	20.36		
Outstanding as of June 30, 2017	6,844,321	$ 16.25	6.80	$ 41,895,512
Exercisable as of June 30, 2017	4,086,269	$ 14.50	5.50	$ 32,153,661

The weighted-average grant date fair value of stock options granted during the six months ended June 30, 2017 and 2016 was $6.24 and $5.59, respectively. The Company issued treasury shares for the exercise of stock options during the six months ended June 30, 2017 and 2016. The total intrinsic value of stock options exercised during the six months ended June 30, 2017 and 2016 was $5.5 million and $6.2 million, respectively.

For options that do not vest based on the achievement of certain market conditions the grant date fair values were estimated on the date of grant using the Black-Scholes option-pricing model, a pricing model acceptable under U.S. GAAP, with the following weighted-average assumptions:

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Expected life (years)	5.6	5.9
Interest rate	1.9%	1.2%
Volatility	29.4%	29.7%
Dividend yield		

Expected volatilities are based on the Company s historical common stock volatility derived from historical stock price data for historical periods commensurate with the options expected life. The expected life is the average number of years that the Company estimated that the options will be outstanding, based primarily on historical employee option exercise behavior. The risk-free interest rate is based on the implied yield currently available on United States Treasury zero coupon issues with a term equal to the expected term at the date of grant of the options. The expected dividend yield is zero as the Company has historically paid no dividends and does not anticipate dividends to be paid in the future.

During the six months ended June 30, 2016, the Company granted supplemental stock options with three tranches at a grant date fair value of $7.46, $7.06, and $6.50, respectively, per share. These options vest, if at all, based upon

(i) tranche one any time after the third anniversary date if the stock has traded at 133% of the exercise price for at least 20 consecutive trading days, (ii) tranche two any time after the fourth anniversary date if the stock has traded at 167% of the exercise price for at least 20 consecutive trading days, and (iii) tranche three any time after the fifth anniversary date if the stock has traded at 200% of the exercise price for at least 20 consecutive trading days. The employees must also remain employed with the Company as of the anniversary date in order for the options to vest. The exercise price of the supplemental stock options is the closing market price on the date the awards were granted. In order to determine the grant date fair value of the supplemental stock options, a Monte Carlo simulation model was used.

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With respect to options granted that vest based on the achievement of certain market conditions, the grant date fair value of such options was estimated using the following weighted-average assumptions:

	Six Months Ended June 30, 2016
Expected life (years)	7.5
Interest rate	1.6%
Volatility	41.6%
Dividend yield	

A summary of nonvested long-term incentive program performance share awards (LTIP Performance Shares) outstanding as of June 30, 2017 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, 2016	1,738,056	$ 18.45
Granted	553,549	20.12
Forfeited	(115,365)	18.60
Nonvested as of June 30, 2017	2,176,240	$ 18.87

A summary of nonvested restricted share awards (RSAs) as of June 30, 2017 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, 2016	172,108	$ 20.62
Granted	560,174	20.61
Vested	(113,693)	20.86
Forfeited	(46,367)	20.47
Nonvested as of June 30, 2017	572,222	$ 20.57

During the six months ended June 30, 2017, a total of 113,693 shares of the RSAs vested. The Company withheld 1,586 of those shares to pay the employees portion of the minimum payroll withholding taxes.

A summary of nonvested Performance-Based Restricted Share Awards (PBRSAs) as of June 30, 2017 and changes during the period are as follows:

Nonvested Performance-Based Restricted Share Awards	Number of Performance-Based Restricted Share Awards	Weighted-Average Grant Date Fair Value
Nonvested as of December 31, 2016	683,667	$ 23.25
Vested	(484,835)	22.82
Forfeited	(11,604)	23.84
Change in attainment for 2015 grants	(13,592)	23.25
Nonvested as of June 30, 2017	173,636	$ 24.41

During the six months ended June 30, 2017, a total of 484,835 shares of the PBRSAs vested. The Company withheld 178,351 of those shares to pay the employees portion of the minimum payroll withholding taxes.

Through December 31, 2016, the Company had accrued the compensation costs assuming an attainment level of 100% for the PBRSA grants vesting based upon forecasted 2016 earnings before income taxes, interest, depreciation and amortization (EBITDA). During the six months ended June 30, 2017, the Company changed the expected attainment on the PBRSAs vesting in June 2017 and June 2018 from 100% to 98% based upon actual results of the related performance target.

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A summary of nonvested Retention Restricted Share Awards (Retention RSAs) as of June 30, 2017 and changes during the period are as follows:

Nonvested Retention Restricted Share Awards	Number of Retention Restricted Share Awards	Weighted-Average Grant Date Fair Value
Nonvested as of December 31, 2016	205,540	$ 17.89
Vested	(151,871)	17.89
Nonvested as of June 30, 2017	53,669	$ 17.89

During the six months ended June 30, 2017, a total of 151,871 shares of the Retention RSAs vested. The Company withheld 52,769 of those shares to pay the employees portion of the minimum payroll withholding taxes.

A summary of nonvested PAY.ON RSAs as of June 30, 2017 and changes during the period are as follows:

Nonvested PAY.ON RSAs	Number of PAY.ON RSAs	Grant Date Fair Value
Nonvested at December 31, 2016	238,376	$ 23.60
Forfeited	(119,188)	23.60
Vested	(59,594)	23.60
Nonvested at June 30, 2017	59,594	$ 23.60

During the six months ended June 30, 2017, the Company granted total shareholder return (TSR) awards, pursuant to the 2016 Equity and Performance Incentive Plan, to certain executive officers. TSRs are performance shares that are earned, if at all, based upon the Company s total shareholder return as compared to a group of peer companies over a three-year performance period. The award payout can range from 0% to 200%. In order to determine the grant date fair value of the TSRs, a Monte Carlo simulation model is used. The Company recognizes compensation expense for TSRs over a three-year performance period based on the grant date fair value. The grant date fair value of the TSRs was estimated using the following weighted-average assumptions:

	Six Months Ended June 30, 2017
Expected life (years)	2.9
Interest rate	1.5%
Volatility	26.5%
Dividend Yield	

A summary of nonvested TSRs outstanding as of June 30, 2017 and changes during the period are as follows:

Nonvested Total Shareholder Return Awards	Number of Shares at Expected Attainment	Weighted-Average Grant Date Fair Value
Nonvested as of December 31, 2016		$
Granted	233,077	24.37
Forfeited	(8,624)	24.37
Nonvested as of June 30, 2017	224,453	$ 24.37

As of June 30, 2017, there were unrecognized compensation costs of $12.6 million related to nonvested stock options, $10.5 million related to the nonvested RSAs, $21.8 million related to the LTIP performance shares, $1.3 million related to nonvested PBRSAs, and $4.8 million related to the TSRs, which the Company expects to recognize over weighted-average periods of 1.8 years, 2.3 years, 2.1 years, 0.9 years, and 2.7 years, respectively.

The Company recorded stock-based compensation expenses recognized under ASC 718 for the three months ended June 30, 2017 and 2016 related to stock options, LTIP performance shares, RSAs, PBRSAs, Retention RSAs, TSRs, and the ESPP of $8.3 million and $13.3 million, respectively, with corresponding tax benefits of $2.8 million and $4.9 million, respectively. The Company recorded stock-based compensation expenses recognized under ASC 718 for the six months ended June 30, 2017 and 2016 related to stock options, LTIP performance shares, RSAs, PBRSAs, Retention RSAs, TSRs, and the ESPP of $14.6 million and $23.0 million, respectively, with corresponding tax benefits of $5.0 million and $8.5 million, respectively. The Company recognizes compensation costs for stock option awards that vest with the passage of time with only service conditions on a straight-line basis over the requisite service period. The Company recognizes compensation costs for stock option awards that vest with service and market-based conditions on a straight-line basis over the longer of the requisite service period or the estimated period to meet the defined market-based condition.

5. Software and Other Intangible Assets

At June 30, 2017, software net book value totaling $171.5 million, net of $207.5 million of accumulated amortization, includes the net book value of software marketed for external sale of $46.7 million. The remaining software net book value of $124.8 million is comprised of various software that has been acquired or developed for internal use.

At December 31, 2016, software net book value totaled $185.5 million, net of $195.0 million of accumulated amortization. Included in this amount is software marketed for external sale of $52.3 million. The remaining software net book value of $133.2 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 June 30, 2017 and 2016 totaled $3.2 million and $3.0 million, respectively. Software for resale amortization expense recorded in the six months ended June 30, 2017 and 2016 totaled $6.5 million and $6.3 million, respectively. These software amortization expense amounts are reflected in cost of revenue in the condensed consolidated statements of operations.

Quarterly amortization of software for internal use is computed using the straight-line method over an estimated useful life of three to ten years. Software for internal use includes software acquired through acquisitions that is used to provide certain of our SaaS and Platform offerings. Amortization of software for internal use of $11.3 million and $11.0 million for the three months ended June 30, 2017 and 2016, respectively. Amortization of software for internal use of $22.6 million and $22.9 million for the six months ended June 30, 2017 and 2016, respectively. These software amortization expense amounts are included in depreciation and amortization in the condensed consolidated statements of operations.

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

	June 30, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance

Customer relationships	$ 301,273	$	(106,631)	$ 194,642	$ 295,730	$	(96,356)	$ 199,374
Trademarks and tradenames	16,388		(12,838)	3,550	16,019		(11,759)	4,260
	$ 317,661	$	(119,469)	$ 198,192	$ 311,749	$	(108,115)	$ 203,634

Other intangible assets amortization expense for the three months ended June 30, 2017 and 2016 totaled $4.8 million and $5.3 million, respectively. Other intangible assets amortization expense for the six months ended June 30, 2017 and 2016 totaled $9.6 million and $11.1 million, respectively. These intangible amortization expense amounts are included in depreciation and amortization in the condensed consolidated statements of operations.

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Based on capitalized software and other intangible assets at June 30, 2017, estimated amortization expense for future fiscal years is as follows:

Fiscal Year Ending December 31, (in thousands)	Software Amortization	Other Intangible Assets Amortization
Remainder of 2017	$ 28,300	$ 9,700
2018	45,170	18,895
2019	37,170	18,349
2020	28,181	17,464
2021	18,780	16,971
2022	8,227	16,814
Thereafter	5,648	99,999
Total	$ 171,476	$ 198,192

6. Corporate Restructuring and Other Organizational Changes

During the six months ended June 30, 2017, the Company ceased use of its leased facility in Edison, NJ, which resulted in additional expense of $0.4 million that was recorded in general and administrative expenses in the accompanying condensed consolidated statements of operations.

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

(in thousands)	Facility Closures
Balance, December 31, 2016	$ 4,559
Restructuring charges incurred	363
Amounts paid during the period	(622)
Foreign currency translation	126
Balance, June 30, 2017	$ 4,426

Of the $4.4 million facility closure liability, $1.2 million and $3.2 million is recorded in other current and noncurrent liabilities, respectively, in the accompanying condensed consolidated balance sheet at June 30, 2017.

7. Common Stock and Treasury Stock

As of September 12, 2012, the Company s Board of Directors (the Board) had approved a stock repurchase program authorizing the Company, from time to time as market and business conditions warrant, to acquire up to $262.1 million of its common stock. On September 13, 2012, the Board approved the repurchase of up to 7,500,000 shares of the Company s common stock, or up to $113.0 million, in place of the remaining repurchase amounts previously authorized. In July 2013 and again in February 2014, the Board approved an additional $100.0 million for the stock repurchase program for a total of an additional $200.0 million.

The Company did not repurchase any shares under the program during the six months ended June 30, 2017. Under the program to date, the Company has repurchased 40,129,393 shares for approximately $455.9 million. The maximum remaining authorized for purchase under the stock repurchase program was approximately $78.2 million as of June 30, 2017.

8. Earnings (Loss) Per Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Weighted average shares outstanding:				
Basic weighted average shares outstanding	117,149	115,480	116,881	117,810
Add: Dilutive effect of stock options				1,213
Diluted weighted average shares outstanding	117,149	115,480	116,881	119,023

The diluted (loss) per share computation excludes 10.1 million and 10.3 million options to purchase shares, contingently issuable shares and restricted share awards during the three and six months ended June 30, 2017, respectively, as their effect would be anti-dilutive. The diluted earnings (loss) per share computation excludes 10.5 million and 5.9 million options to purchase shares, restricted share awards, and contingently issuable shares during the three and six months ended June 30, 2016, respectively, as their effect would be anti-dilutive.

Common stock outstanding as of June 30, 2017 and December 31, 2016 was 118,165,965 and 117,336,797, respectively.

9. Other

Other is comprised of foreign currency transaction gains (losses) of ($1.8) million and $2.0 million for the three months ended June 30, 2017 and 2016, respectively. Other is comprised of foreign currency transaction gains (losses) of ($1.1) million and $1.7 million for the six months ended June 30, 2017 and 2016, respectively.

10. Segment Information

In January 2017, the Company announced a change in organizational structure to align with its strategic direction. As a result, beginning in the first half of 2017, the Company reports financial performance based on its new segments, ACI On Premise and ACI On Demand, and analyzes operating income as a measure of segment profitability.

The Company s chief operating decision maker (CODM), which is also our Chief Executive Officer, together with other senior management personnel, focus their review of consolidated financial information and the allocation of resources based upon the operating results, including revenues and operating income, for the segments ACI On Premise and ACI On Demand, separate from the Corporate operations.

ACI On Premise serves customers who manage their software on site. These on-premise customers use the Company s software to develop sophisticated, custom solutions, which are often part of a larger system located and managed at the customer site. These customers require a level of control, customization, and flexibility that ACI On Premise solutions can offer, and they have the resources and expertise to take a lead role in managing these solutions.

ACI On Demand serves the needs of retail and financial institutions who use payments to facilitate their core business. The Company sees an increasing number of customers opting for software as a service and platform as a service offerings, which offer reduced complexity and cost as well as the ability to rapidly implement and scale.

Revenue is attributed to the reportable segments based upon the product sold and mechanism for delivery to the customer. Expenses are attributed to the reportable segments in one of three methods, (1) direct costs of the segment, (2) labor costs that can be attributed based upon time tracking for individual products, or (3) costs that are allocated. Allocated costs are generally marketing and sales related activities as well as information technology and facilities related expense for which multiple segments benefit. The Company also allocates certain depreciation costs to the segments.

Corporate and other consists of the corporate overhead costs that are not allocated to reportable segments. These overhead costs relate to human resources, finance, legal, accounting, merger and acquisition activity, amortization of acquisition-related intangibles, and other costs that are not considered when management evaluates segment performance. For the three and six months ended June 30, 2017, Corporate and other includes $46.7 million of general and administrative expense for the legal judgment discussed in Note 12. For the six months ended June 30, 2016, Corporate and other also includes revenue and operating income from the operations and sale of CFS related assets and liabilities of $15.4 million and $152.2 million, respectively.

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The following is selected financial data for the Company s reportable segments for the periods indicated (in thousands):

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Revenues:				
ACI On Premise	$ 127,194	$ 117,246	$ 259,102	$ 229,286
ACI On Demand	113,405	102,684	212,959	201,294
Corporate and other				15,416
	$ 240,599	$ 219,930	$ 472,061	$ 445,996
Depreciation and amortization expense:				
ACI On Premise	$ 3,333	$ 3,430	$ 6,594	$ 7,345
ACI On Demand	9,009	6,935	17,397	14,357
Corporate and other	13,239	13,978	27,228	29,153
	$ 25,581	$ 24,343	$ 51,219	$ 50,855
Stock-based compensation expense:				
ACI On Premise	$ 1,899	$ 1,586	$ 3,115	$ 3,452
ACI On Demand	1,894	1,582	3,108	3,443
Corporate and other	4,550	10,139	8,417	16,123
	$ 8,343	$ 13,307	$ 14,640	$ 23,018
Operating income (loss):				
ACI On Premise	$ 57,296	$ 37,614	$ 121,214	$ 73,195
ACI On Demand	(11,448)	(11,742)	(28,057)	(20,564)
Corporate and other	(84,291)	(52,444)	(127,977)	57,509
	$ (38,443)	$ (26,572)	$ (34,820)	$ 110,140

Assets are not allocated to segments and the Company s CODM does not evaluate operating segments using discrete asset information.

The following is selected financial data for the Company s geographical areas for the periods indicated (in thousands):

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016

Revenues:				
United States	$ 130,576	$ 125,550	$ 265,578	$ 258,915
Other	110,023	94,380	206,483	187,081
	$ 240,599	$ 219,930	$ 472,061	$ 445,996

	June 30, 2017	**December 31, 2016**
Long lived assets		
United States	$ 777,902	$ 752,442
United Kingdom	203,509	204,193
Other	419,572	460,190
	$ 1,400,983	$ 1,416,825

No single customer accounted for more than 10% of the Company s consolidated revenues during the three and six months ended June 30, 2017 and 2016. Aggregate revenues attributable to our customers in the United Kingdom accounted for 11.4% of the Company s consolidated revenues during the three months ended June 30, 2017. No other country outside the United

States and the United Kingdom accounted for more than 10% of the Company s consolidated revenues during the three months ended June 30, 2017. No other country outside the United States accounted for more than 10% of the Company s consolidated revenues during the six months ended June 30, 2017 or the three and six months ended June 30, 2016.

11. Income Taxes

The effective tax rates for the three and six months ended June 30, 2017 were 41% and 44%. The earnings of the Company s foreign entities for the three and six months ended June 30, 2017 were $16.7 million and $25.4 million. The tax rates in the foreign jurisdictions in which the Company operates are less than the domestic tax rate. The effective tax rates for the three and six months ended June 30, 2017 were impacted by profits and losses in certain foreign jurisdictions taxed at lower rates and domestic losses taxed at higher rates.

The effective tax rates for the three and six months ended June 30, 2016 were 52% and 21%, respectively. The earnings of the Company s foreign entities for the three and six months ended June 30, 2016 were $20.7 million and $27.6 million, respectively. The tax rates in the foreign jurisdictions in which the Company operates are less than the domestic tax rate. The effective tax rate for the three and six months ended June 30, 2016 was reduced by foreign profits and losses taxed at lower rates. The effective tax rate for the six months ended June 30, 2016 was also impacted by a release of $10.1 million valuation allowance previously established against foreign tax credits that are now expected to be fully utilized as a result of the sale of the Community Financial Services assets and liabilities.

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

The amount of unrecognized tax benefits for uncertain tax positions was $24.7 million as of June 30, 2017 and $24.3 million as of December 31, 2016, excluding related liabilities for interest and penalties of $1.5 million and $1.9 million as of June 30, 2017 and December 31, 2016, respectively.

The Company believes it is reasonably possible that the total amount of unrecognized tax benefits will decrease within the next 12 months by approximately $1.4 million, due to the settlement of various audits and the expiration of statutes of limitation.

12. Commitments and Contingencies

Legal Proceedings

On September 23, 2015, a jury verdict was returned against ACI Worldwide Corp. (ACI Corp.), a subsidiary of the Company, for $43.8 million in connection with counterclaims brought by Baldwin Hackett & Meeks, Inc. (BHMI) in the District Court of Douglas County, Nebraska. On September 21, 2012, ACI Corp. had sued BHMI for misappropriation of ACI Corp. s trade secrets. The jury found that ACI Corp. had not met its burden of proof regarding these claims. On March 6, 2013, BHMI asserted counterclaims for breach of a non-disclosure agreement, tortious interference and violation of the Nebraska anti-monopoly statute, all of which were alleged to arise out of ACI Corp. s filing of its lawsuit. On September 23, 2015, the jury found for BHMI on its counterclaims and awarded $43.8 million in damages. On January 5, 2016, the court entered a judgment against ACI Corp. for $43.8 million for damages and $2.7 million for attorney fees and costs. ACI Corp. disagreed with the verdicts and judgment, and after the trial court denied ACI Corp. s post-judgment motions, on March 31, 2016, ACI Corp. perfected an appeal of the dismissal of its claims against BHMI and the judgment in favor of BHMI on its counterclaims, and oral arguments were held before the Nebraska Supreme Court on March 3, 2017. On June 9, 2017, the Nebraska Supreme Court affirmed the District Court judgment. The Company recorded expense of $48.1 million during the three and six months ended June 30, 2017, of which $46.7 million is included in general and administrative expense and $1.4 million in interest expense in the accompanying condensed consolidated statement of operations. The Company expects to pay the judgment within 12 months.

Indemnities

Under certain customer contracts, the Company indemnifies customers for certain matters including third party claims of intellectual property infringement relating to the use of our products. Our maximum potential exposure under indemnification

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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 June 30, 2017.

13. Accumulated Other Comprehensive Loss

Activity within accumulated other comprehensive loss for the six months ended June 30, 2017, which consists of foreign currency translation adjustments, were as follows:

		Accumulated other comprehensive loss
Balance at December 31, 2016	$	(94,100)
Other comprehensive income		15,120
Balance at June 30, 2017	$	(78,980)

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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. T forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended.

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

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

- increased competition;
- the performance of our strategic products, Universal Payments solutions;
- demand for our products;
- consolidations and failures in the financial services industry;
- customer reluctance to switch to a new vendor;
- our strategy to migrate customers to our next generation products;
- our strategy to migrate customers to SaaS and Platform software solutions;
- 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;

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

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

failing to comply with money transmitter rules and regulations;

our compliance with privacy regulations;

being subject to security breaches or viruses;

the protection of our intellectual property;

risks from increasing intellectual property rights litigation;

certain payment funding methods expose us to the credit and/or operating risk of our clients;

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

our offshore software development activities;

operating internationally;

global economic conditions impact on-demand for our products and services;

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

risks from potential future litigation;

our sale of Community Financial Services (CFS) assets and liabilities to Fiserv, Inc. (Fiserv), including potential claims arising under the transaction agreement, the transition services agreement or with respect to retained liabilities;

future acquisitions, strategic partnerships, and investments;

- impairment of our goodwill or intangible assets;
- restrictions and other financial covenants in our credit facility;
- difficulty meeting our debt service requirements;
- the accuracy of our backlog estimates;
- exposure to unknown tax liabilities;
- 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.

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, 2016, filed March 1, 2017. Results for the three and six months ended June 30, 2017, are not necessarily indicative of results that may be attained in the future.

Overview

ACI Worldwide, the Universal Payments (UP) company, powers electronic payments for more than 5,100 organizations around the world. More than 1,000 of the largest financial institutions and intermediaries, as well as thousands of global merchants, rely on ACI to execute $14 trillion each day in payments and securities. In addition, thousands of organizations utilize our electronic bill presentment and payment services. Through our comprehensive suite of software as a service (SaaS) and platform as a service (Platform) solutions, we deliver real-time, immediate payments capabilities, and enable a complete omni-channel payments experience.

Our products are sold and supported through distribution networks covering three geographic regions the Americas, EMEA, and Asia/Pacific. Each distribution network has its own globally coordinated sales force and supplements its sales force with independent reseller and/or distributor networks. These products and solutions are used globally by financial institutions, retailers and billers and intermediaries, such as third-party electronic payment processors, payment associations, switch interchanges and a wide range of transaction-generating endpoints, including ATMs, retail point-of-sale (POS) terminals, bank branches, mobile phones, tablets, corporations, and Internet commerce sites. Accordingly, our business and operating results are influenced by trends such as information technology spending levels, the growth rate of the electronic payments industry, mandated regulatory changes, and changes in the number and type of customers in the financial services industry. Our products are marketed under the ACI Worldwide, ACI Universal Payment, and ACI UP brands.

We derive a majority of our revenues from domestic operations and believe we have large opportunities for growth in international markets as well as continued expansion domestically in the United States. Refining our global infrastructure is a critical component of driving our growth. We have launched a globalization strategy which includes elements intended to streamline our supply chain and maximize expertise in several geographic locations to support a growing international customer base and competitive needs. We utilize our Irish subsidiaries to manage certain of our intellectual property rights and to oversee and manage certain international product development and commercialization efforts. We recently increased our SaaS and Platform capabilities with a new data center in Ireland allowing our SaaS and Platform solutions to be more-broadly offered in the European market. We also continue to grow centers of expertise in Timisoara, Romania and Pune and Bangalore in India, as well as key operational centers such as Cape Town, South Africa and in multiple locations in the United States.

Key trends that currently impact our strategies and operations include:

Increasing electronic payment transaction volumes. Electronic payment volumes continue to increase around the world, taking market share from traditional cash and check transactions. The Boston Consulting Group predicts that electronic payment transactions will grow in volume at an annual rate of 6.7%, from 481 billion in 2016 to 624.6 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 payments. Customer expectations, from both consumers and corporate, are driving the payments world to more real-time delivery. In the U.K., payments sent through the traditional ACH multi-day batch service can now be sent through the Faster Payments service giving almost immediate access to the funds, and this is being considered and

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implemented in several countries including Australia and the United States. In the U.S. market, NACHA is gradually moving with phase 1 of Same Day ACH. 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.

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, merchants, and electronic payment processors are seeking to transition their systems to make use of cloud technology. Our investments provide us the grounding to deliver cloud capabilities in the future. Market sizing data from Ovum indicates that spend on SaaS and Platform payment systems is growing faster than spend on installed applications.

Electronic payments fraud and compliance. As electronic payment transaction volumes increase, organized criminal organizations continue to find ways to commit a growing volume of fraudulent transactions using a wide range of techniques. Financial institutions, merchants and electronic payment processors continue to seek ways to leverage new technologies to identify and prevent fraudulent transactions and other attacks such as denial of service attacks. Due to concerns with international terrorism and money laundering, financial institutions in particular are being faced with increasing scrutiny and regulatory pressures. We continue to see opportunity to offer our fraud detection solutions to help customers manage the growing levels of electronic payments fraud and compliance activity.

Adoption of smartcard technology. In many markets, card issuers are being required to issue new cards with embedded chip technology, with the liability shift going into effect in 2015 in the United States. Chip-based cards are more secure, harder to copy, and offer the opportunity for multiple functions on one card (e.g., debit, credit, electronic purse, identification, health records, etc.). This results in greater card-not-present fraud (e.g., fraud at eCommerce sites).

Single Euro Payments Area (SEPA). The SEPA, primarily focused on the European economic community and the U.K., 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 transaction banking solutions facilitate key functions that help financial institutions address these mandated regulations.

European Payment Service Directive (PSD2). PSD2, which was ratified by the European Parliament in 2015, will force member states to implement new payments regulation before 2017. The XS2A provision effectively creates a new market opportunity where banks in European Union member countries must provide open API standards to customer data, thus allowing authorized third-party providers to enter the market.

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

Global vendor sourcing. Global and regional financial institutions, merchants and processors 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 a customer and a delivery perspective enable us to be successful in this global sourced market. However, projects in these environments tend to be more complex and therefore of higher risk.

Electronic payments convergence. As electronic payment volumes grow and pressures to lower overall cost per transaction increase, financial institutions are seeking methods to consolidate their payments processing across the enterprise. We believe that the strategy of using service-oriented architectures to allow for re-use of common electronic payment functions, such as authentication, authorization, routing and settlement, will become more common. Using these techniques, financial institutions will be able to reduce costs, increase overall service levels, enable one-to-one marketing in multiple bank channels, leverage volumes for improved pricing and liquidity, and manage enterprise risk. Our product strategy is, in part, focused on this trend, by creating integrated payment functions that can be re-used by multiple bank channels, across both the consumer and wholesale bank. While this trend presents an opportunity for us, it may also expand the competition from third-party electronic payment technology and service providers specializing in other forms of electronic payments. Many of these providers are larger than us and have significantly greater financial, technical and marketing resources.

Mobile banking and payments. There is a growing demand for the ability to carry out banking services or make payments using a mobile phone. Recent statistics from Javelin Strategy & Research, a subsidiary of Greenwich Associates, show that 50% of adults in the United States use their phone for mobile banking. The use of phones for mobile banking is expected to grow to 81% in 2020. Our customers have been making use of existing products to deploy mobile banking, mobile payments, and mobile commerce solutions for their customers in many countries. In addition, ACI has invested in mobile products of our own and via partnerships to support mobile functionality in the marketplace.

Electronic Bill Payment and Presentment (EBPP). EBPP encompasses all facets of bill payment, including biller direct, where customers initiate payments on biller websites, the consolidator model, where customers initiate payments on a financial institution s website, and walk-in bill payment, as one might find in a convenience store. The EBPP market continues to grow as consumers move away from traditional forms of paper-based payments. According to Aite Group, the number of households paying at biller websites is 96 million or 77% of U.S. households. The biller-direct segment is seeing strong growth as billers migrate these services to outsourcers, such as ACI, from legacy systems built in house. We believe that EBPP remains ripe for outsourcing, as a significant amount of biller-direct transactions are still processed in house. As billers seek to manage costs and improve efficiency, we believe that they will continue to look to third-party EBPP vendors that can offer a complete solution for their billing needs.

The banking, financial services, and payment 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 regulations that have a direct impact on our customers and potential customers. This is not limited to the United States. In April 2014, the European Commission voted to adopt a number of amendments with regards to the Payment Services Directive, placing further pressure on industry incumbents.

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

Several other factors related to our business may have a significant impact on our operating results from year to year. For example, the accounting rules governing the timing of revenue recognition in the software industry are complex and it can be difficult to estimate when we will recognize revenue generated by a given transaction. Factors such as maturity of the software product licensed, payment terms, creditworthiness of the customer, and timing of delivery or acceptance of our products often cause revenues related to sales generated in one period to be deferred and recognized in later periods. For arrangements in which services revenue is deferred, related direct and incremental costs may also be deferred. Additionally, while the majority of our contracts are denominated in the U.S. 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.

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Divestiture

Community Financial Services

On March 3, 2016, we completed the sale of our CFS related assets and liabilities to Fiserv for $200.0 million. The sale of CFS, which was not aligned with our long-term strategy, is part of the Company s ongoing efforts to expand as a provider of software products and SaaS-based and Platform-based solutions facilitating real-time electronic and eCommerce payments for large financial institutions, intermediaries, retailers, and billers worldwide. The sale included employee agreements and customer contracts as well as technology assets and intellectual property.

For the six months ended June 30, 2016, we recognized a net after-tax gain of $93.7 million on sale of assets to Fiserv.

Backlog

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

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

- Maintenance fees are assumed to exist for the duration of the license term for those contracts in which the committed maintenance term is less than the committed license term.
- License, facilities management, and software as a service and platform as a service arrangements are assumed to renew at the end of their committed term at a rate consistent with our historical experiences.
- Non-recurring license arrangements are assumed to renew as recurring revenue streams.
- Foreign currency exchange rates are assumed to remain constant over the 60-month backlog period for those contracts stated in currencies other than the U.S. dollar.
- Our pricing policies and practices are assumed to remain constant over the 60-month backlog period.

In computing our 60-month backlog estimate, the following items are specifically not taken into account:

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

Optional annual uplifts or inflationary increases in recurring fees.

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

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

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

The following table sets forth our 60-month backlog estimate, by reportable segment, as of June 30, 2017, March 31, 2017 and December 31, 2016 (in millions). Dollar amounts reflect foreign currency exchange rates as of each period end.

	June 30, 2017	**March 31, 2017**	**December 31, 2016**
ACI On Premise	$ 1,722	$ 1,709	$ 1,718
ACI On Demand	2,345	2,303	2,298
Total	$ 4,067	$ 4,012	$ 4,016

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	June 30, 2017	March 31, 2017	December 31, 2016
Committed	$ 1,908	$ 1,914	$ 1,930
Renewal	2,159	2,098	2,086
Total	$ 4,067	$ 4,012	$ 4,016

Included in our 60-month backlog estimates are amounts expected to be recognized during the initial license term of customer contracts (Committed Backlog) and amounts expected to be recognized from assumed renewals of existing customer contracts (Renewal Backlog). Amounts expected to be recognized from assumed contract renewals are based on our historical renewal experience.

We also estimate 12-month backlog, segregated between monthly recurring and non-recurring revenues, using a methodology consistent with the 60-month backlog estimate. Monthly recurring revenues include all monthly license fees, maintenance fees and SaaS and Platform 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 segment, as of June 30, 2017, March 31, 2017 and December 31, 2016 (in millions). For all periods reported, approximately 75% of our 12-month backlog estimate is committed backlog and approximately 25% of our 12-month backlog estimate is renewal backlog. Dollar amounts reflect currency exchange rates as of each period end.

	June 30, 2017		
	Monthly Recurring	Non-Recurring	Total
ACI On Premise	$ 300	$ 82	$ 382
ACI On Demand	456		456
Total	$ 756	$ 82	$ 838

	March 31, 2017			December 31, 2016		
	Monthly Recurring	Non-Recurring	Total	Monthly Recurring	Non-Recurring	Total
ACI On Premise	$ 294	$ 77	$ 371	$ 298	$ 79	$ 377
ACI On Demand	443		443	439		439
Total	$ 737	$ 77	$ 814	$ 737	$ 79	$ 816

Estimates of future financial results 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-Month Period Ended June 30, 2017 Compared to the Three-Month Period Ended June 30, 2016

	Three Months Ended June 30,					
	2017				2016	
	Amount	% of Total Revenue	$ Change vs 2016	% Change vs 2016	Amount	% of Total Revenue
Revenues:						
Software as a service and platform as a service	$ 113,469	47%	$ 11,204	11%	$ 102,265	46%
Initial license fees (ILFs)	34,636	14%	19,420	128%	15,216	7%
Monthly license fees (MLFs)	19,544	8%	1,250	7%	18,294	8%
License	54,180	23%	20,670	62%	33,510	15%
Maintenance	56,009	23%	(4,323)	-7%	60,332	27%
Services	16,941	7%	(6,882)	-29%	23,823	11%
Total revenues	240,599	100%	20,669	9%	219,930	100%
Operating expenses:						
Cost of revenue	120,357	50%	4,973	4%	115,384	52%
Research and development	34,969	15%	(11,452)	-25%	46,421	21%
Selling and marketing	28,817	12%	22	0%	28,795	13%
General and administrative	72,527	30%	38,007	110%	34,520	16%
Depreciation and amortization	22,372	9%	990	5%	21,382	10%
Total operating expenses	279,042	116%	32,540	13%	246,502	112%
Operating loss	(38,443)	-16%	(11,871)	45%	(26,572)	-12%
Other income (expense):						
Interest expense	(10,664)	-4%	(949)	10%	(9,715)	-4%
Interest income	150	0%	29	24%	121	0%
Other, net	(1,766)	-1%	(3,789)	-187%	2,023	1%
Total other income (expense)	(12,280)	-5%	(4,709)	62%	(7,571)	-3%
Loss before income taxes	(50,723)	-21%	(16,580)	49%	(34,143)	-16%
Income tax benefit	(20,914)	-9%	(3,245)	18%	(17,669)	-8%
Net loss	$ (29,809)	-12%	$ (13,335)	81%	$ (16,474)	-7%

Revenues

Total revenue for the three months ended June 30, 2017, increased $20.7 million, or 9%, as compared to the same period in 2016. The increase is the result of a $20.7 million, or 62%, increase in license revenue, an $11.2 million, or 11%, increase in SaaS and Platform revenue, partially offset by a $4.3 million, or 7%, decrease in maintenance revenue, and a $6.9 million, or 29%, decrease in services revenue.

Total revenue was $1.9 million lower for the three months ended June 30, 2017, compared to the same period in 2016 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of foreign currency, total revenue for the three months ended June 30, 2017, increased $22.6 million, or 10%, compared to the same period in 2016 primarily as a result of an increase in initial license fees, monthly license fees, and SaaS and Platform revenue partially offset by decreases in services and maintenance revenue.

Software as a Service (SaaS) and Platform as a Service (Platform) Revenue

SaaS and Platform revenue includes fees earned through SaaS-based and Platform-based arrangements. All revenue from these arrangements that does not qualify for treatment as a separate unit of accounting, which includes set-up fees, implementation or customization services, and product support services, are included in SaaS and Platform revenue.

SaaS and Platform revenue increased $11.2 million, or 11%, during the three months ended June 30, 2017, as compared to the same period in 2016. SaaS and Platform revenue was $0.6 million lower for the three months ended June 30, 2017, compared to the same period in 2016 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of foreign currency, total SaaS and Platform revenue for the three months ended June 30, 2017, increased $11.8 million, or 12%, compared to the same period in 2016, which is primarily attributable to new customers adopting our SaaS and Platform-based offerings and existing customers adding new functionality or increasing transaction volumes.

License 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 volume. ACI employs measurement tools that monitor the number of transactions processed by customers and if contractually specified limits are exceeded, additional fees are charged for the overage. Capacity overages may occur at varying times throughout the term of the agreement depending on the product, the size of the customer, and the significance of customer transaction volume growth. Depending on specific circumstances, multiple overages or no overages may occur during the term of the agreement.

Initial License Revenue

Initial license revenue includes license and capacity revenues that do not recur on a monthly or quarterly basis. Included in initial license revenue are license and capacity fees that are recognizable at the inception of the agreement and license and capacity fees that are recognizable at interim points during the term of the agreement, including those that are recognizable annually due to negotiated customer payment terms.

Initial license revenue increased $19.4 million, or 128%, during the three months ended June 30, 2017, as compared to the same period in 2016. The increase in initial license revenue was primarily driven by an increase in capacity related and non-capacity related license revenue of $10.8 million and $8.6 million, respectively, for the three months ended June 30, 2017, compared to the same period in 2016. The increase in capacity related license revenue was attributable to the execution of several license arrangements and the timing and relative size of capacity events during the three months ended June 30, 2017, as compared to the same period in 2016. The increase in non-capacity related license revenue was largely attributable to the execution of several license arrangements during the three months ended June 30, 2017, as compared to the same period in 2016.

Total initial license revenue was $0.1 million lower for the three months ended June 30, 2017, compared to the same period in 2016 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of foreign currency, total initial license revenue for the three months ended June 30, 2017, increased $19.5 million, or 128%, compared to the same period in 2016.

Monthly License Revenue

Monthly license revenue is license and capacity revenue that is paid monthly or quarterly due to negotiated customer payment terms as well as initial license and capacity fees that are recognized as revenue ratably over an extended period as monthly license revenue.

Monthly license revenue increased $1.3 million, or 7%, during the three months ended June 30, 2017, as compared to the same period in 2016. Total monthly license revenue was $0.3 million lower for the three months ended June 30, 2017, compared to the same period in 2016 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of foreign currency, total monthly license revenue for the three months ended June 30, 2017, increased $1.6 million, or 9%, compared to the same period in 2016.

Maintenance Revenue

Maintenance revenue includes standard and premium maintenance and any post contract support fees received from customers for the provision of product support services.

Maintenance revenue decreased $4.3 million, or 7%, during the three months ended June 30, 2017, as compared to the same period in 2016. Total maintenance revenue was $0.8 million lower for the three months ended June 30, 2017, as compared to the same period in 2016 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of foreign currency, total maintenance revenue for the three months ended June 30, 2017, decreased $3.5 million, or 6%, compared to the same period in 2016, which is primarily attributable to the recognition of cumulative deferred maintenance revenue for certain customer contracts due to meeting required revenue recognition criteria during the three months ended June 30, 2016 and certain customers electing to cancel premium maintenance prior to the three months ended June 30, 2017. These decreases were partially offset by maintenance revenue from sales of licensed products to new and existing customers prior to and during the three months ended June 30, 2017.

Services Revenue

Services revenue includes fees earned through implementation services, professional services, and facilities management services. Implementation services include product installations, product configurations, and custom software modifications (CSMs). Professional services include business consultancy, technical consultancy, on-site support services, CSMs, product education, and testing services. These services include new customer implementations as well as existing customer migrations to new products or new releases of existing products. During the period in which non-essential services revenue is being deferred, direct and incremental costs related to the performance of these services are also being deferred. During the period in which essential services revenue is being deferred, direct and indirect costs related to the performance of these services are also being deferred.

Services revenue decreased by $6.9 million, or 29%, during the three months ended June 30, 2017, as compared to the same period in 2016. Total services revenue was $0.2 million lower for the three months ended June 30, 2017, as compared to the same period in 2016 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of foreign currency, total services revenue for the three months ended June 30, 2017, decreased $6.7 million, or 28%, compared to the same period in 2016. During the three months ended June 30, 2016, we completed or neared completion of several large, complex projects that resulted in recognition of services revenue as the work was performed and the projects were completed. The number and magnitude of such projects was lower during the three months ended June 30, 2017. Additionally, our customers continue to transition from on-premise to on-demand software solutions. Services work performed in relation to our on-demand software solutions is recognized over a longer service period and is classified as SaaS and Platform revenue.

Operating Expenses

Total operating expenses for the three months ended June 30, 2017 increased $32.5 million, or 13%, as compared to the same period in 2016.

For the three months ended June 30, 2017, there was $46.7 million of expense recorded in relation to the Baldwin Hackett & Meeks Inc. (BHMI) judgment. Total operating expenses were $1.1 million lower for the three months ended June 30, 2017, compared to the same period in 2016, due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of the BHMI judgment and foreign currency, operating expenses decreased $13.1 million, or 5%, for the three months ended June 30, 2017, principally reflecting lower research and development expenses and lower general and administrative expenses, partially offset by higher cost of revenue, higher selling and marketing expense, and higher depreciation and amortization expenses.

Cost of Revenue

Cost of revenue includes costs to provide SaaS and Platform services, third-party royalties, amortization of purchased and developed software for resale, the costs of maintaining our software products, as well as the costs required to deliver, install, and support software at customer sites. SaaS and Platform service costs include payment card interchange fees, assessments payable to banks, and payment card processing fees. 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 revenue increased $5.0 million, or 4%, during the three months ended June 30, 2017, compared to the same period in 2016. Cost of revenue was approximately $0.7 million lower due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of foreign currency, cost of revenue increased $5.7 million, or 5%, for the three months ended June 30, 2017, primarily due to a $6.0 million increase in payment card interchange fees.

Research and Development

Research and development (R&D) expenses are primarily human resource costs related to the creation of new products, improvements made to existing products as well as compatibility with new operating system releases and generations of hardware.

R&D decreased $11.5 million, or 25%, during the three months ended June 30, 2017, as compared to the same period in 2016. Research and development expenses decreased primarily due to a decrease in personnel and related expenses, including a $3.4 million decrease in stock-based compensation.

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Selling and Marketing

Selling and marketing includes both the costs related to selling our products to current and prospective customers as well as the costs related to promoting the Company, its products and the research efforts required to measure customers future needs and satisfaction levels. Selling costs are primarily the human resource and travel costs related to the effort expended to license our products and services to current and potential clients within defined territories and/or industries as well as the management of the overall relationship with customer accounts. Selling costs also include the costs associated with assisting distributors in their efforts to sell our products and services in their respective local markets. Marketing costs include costs incurred to promote the Company and its products, perform or acquire market research to help the Company better understand impending changes in customer demand for and of our products, and the costs associated with measuring customers opinions toward the Company, our products and personnel.

Selling and marketing expense was flat during the three months ended June 30, 2017, as compared to the same period in 2016. Selling and marketing was $0.3 million lower for the three months ended June 30, 2017, as compared to the same period in 2016, due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of foreign currency, selling and marketing expense increased $0.3 million, or 1%, for the three months ended June 30, 2017, due to an increase in personnel and related expenses.

General and Administrative

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

General and administrative expense increased $38.0 million during the three months ended June 30, 2017, as compared to the same period in 2016. During the three months ended June 30, 2017, we recognized $46.7 million of litigation expense in relation to the BHMI judgment. Excluding the impact of the BHMI judgment, general and administrative expenses decreased $8.7 million, or 25%, for the three months ended June 30, 2017. The decrease is primarily due to a $6.4 million decrease in significant transaction related and integration expenses and a $2.3 million decrease in personnel and related expenses, including a $1.5 million decrease in stock-based compensation.

Depreciation and Amortization

Depreciation and amortization increased $1.0 million, or 5%, during the three months ended June 30, 2017, as compared to the same period in 2016. Depreciation and amortization decreased $0.1 million due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of foreign currency, depreciation and amortization increased $1.1 million, or 5%, for the three months ended June 30, 2017, due to an increase in capital expenditures.

Other Income and Expense

Interest expense for the three months ended June 30, 2017 increased $0.9 million, or 10%, as compared to the same period in 2016 due to $1.4 million of interest expense recognized on the BHMI judgement during the three months ended June 30, 2017. Excluding the impact of interest on the BHMI judgment, interest expense for the three months ended June 30, 2017 decreased $0.5 million, or 5%, compared to the same period in 2016.

Other, net consists of foreign currency gains (losses) and other non-operating items. Foreign currency gains (losses) for the three months ended June 30, 2017 and 2016 were ($1.8) million and $2.0 million, respectively.

Income Taxes

The effective tax rate for the three months ended June 30, 2017 was 41%. The earnings of our foreign entities for the three months ended June 30, 2017 were $16.7 million. The tax rates in the foreign jurisdictions in which we operate are less than the domestic tax rate. The effective tax rate for the three months ended June 30, 2017 was impacted by profits and losses in certain foreign jurisdictions taxed at lower rates and domestic losses taxed at higher rates.

The effective tax rate for the three months ended June 30, 2016 was 52%. The earnings of our foreign entities for the three months ended June 30, 2016 were $20.7 million. The tax rates in the foreign jurisdictions in which we operate are less than the domestic tax rate. The effective tax rate for the three months ended June 30, 2016 was impacted by foreign profits taxed at lower rates and domestic losses taxed at a higher rate.

Our effective tax rate could fluctuate significantly on a quarterly basis and could be negatively affected to the extent earnings are

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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.

Six-Month Period Ended June 30, 2017 Compared to the Six-Month Period Ended June 30, 2016

	Six Months Ended June 30,					
	2017				2016	
	Amount	% of Total Revenue	$ Change vs 2016	% Change vs 2016	Amount	% of Total Revenue
Revenues:						
Software as a service and platform as a service	$ 212,916	45%	$ (1,085)	-1%	$ 214,001	48%
Initial license fees (ILFs)	75,230	16%	39,649	111%	35,581	8%
Monthly license fees (MLFs)	38,331	8%	2,979	8%	35,352	8%
License	113,561	24%	42,628	60%	70,933	16%
Maintenance	110,480	23%	(7,183)	-6%	117,663	26%
Services	35,104	7%	(8,295)	-19%	43,399	10%
Total revenues	472,061	100%	26,065	6%	445,996	100%
Operating expenses:						
Cost of revenue	228,900	48%	(4,918)	-2%	233,818	52%
Research and development	72,254	15%	(17,771)	-20%	90,025	20%
Selling and marketing	55,954	12%	(2,833)	-5%	58,787	13%
General and administrative	105,030	22%	44,442	73%	60,588	14%
Gain on sale of CFS assets		0%	151,952	-100%	(151,952)	-34%
Depreciation and amortization	44,743	9%	153	0%	44,590	10%
Total operating expenses	506,881	107%	171,025	51%	335,856	75%
Operating income (loss)	(34,820)	-7%	(144,960)	-132%	110,140	25%
Other income (expense):						
Interest expense	(20,824)	-4%	(695)	3%	(20,129)	-5%
Interest income	256	0%	(15)	-6%	271	0%
Other, net	(1,117)	0%	(2,806)	-166%	1,689	0%
Total other income (expense)	(21,685)	-5%	(3,516)	19%	(18,169)	-4%
Income (loss) before income taxes	(56,505)	-12%	(148,476)	-161%	91,971	21%
Income tax expense (benefit)	(25,088)	-5%	(44,389)	-230%	19,301	4%

Net income (loss)	$ (31,417)	-7%	$ (104,087)	-143%	$ 72,670	16%

Revenues

Total revenue for the six months ended June 30, 2017, increased $26.1 million, or 6%, as compared to the same period in 2016. The increase is the result of a $42.6 million, or 60%, increase in license revenue, partially offset by an $8.3 million, or 19%, decrease in services revenue, a $7.2 million, or 6%, decrease in maintenance revenue, and a $1.1 million, or 1%, decrease in SaaS and Platform revenue.

The CFS divestiture resulted in a $15.4 million decrease in total revenue for the six months ended June 30, 2017. Total revenue was $3.1 million lower for the six months ended June 30, 2017, compared to the same period in 2016 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of CFS and foreign currency, total revenue for the six months ended June 30, 2017, increased $44.6 million, or 10%, compared to the same period in 2016 primarily as a result of an increase in initial license fees, monthly license fees, and SaaS and Platform revenue, partially offset by decreases in services and maintenance revenue.

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SaaS and Platform Revenue

SaaS and Platform revenue decreased $1.1 million, or 1%, during the six months ended June 30, 2017, as compared to the same period in 2016. The CFS divestiture resulted in decreased SaaS and Platform revenue of $13.6 million during the six months ended June 30, 2017. Total SaaS and Platform revenue was $1.3 million lower for the six months ended June 30, 2017, compared to the same period in 2016 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of CFS and foreign currency, total SaaS and Platform revenue for the six months ended June 30, 2017, increased $13.8 million, or 6%, compared to the same period in 2016, which is primarily attributed to new customers adopting our SaaS and Platform-based offerings and existing customers adding new functionality or increasing transaction volumes.

Initial License Revenue

Initial license revenue increased $39.6 million, or 111%, during the six months ended June 30, 2017, as compared to the same period in 2016. The increase in initial license revenue was driven by an increase in capacity related and non-capacity related license revenue of $20.7 million and $18.9 million, respectively, for the six months ended June 30, 2017, compared to the same period in 2016. The increase in capacity related license revenue was attributable to the execution of several license arrangements and the timing and relative size of capacity events during the six months ended June 30, 2017, as compared to the same period in 2016. The increase in non-capacity related license revenue was largely attributable to the execution of several license arrangements during the six months ended June 30, 2017, as compared to the same period in 2016.

Total initial license revenue was $0.4 million higher for the six months ended June 30, 2017, compared to the same period in 2016 due to the impact of certain foreign currencies strengthening against the U.S. dollar and the magnitude in which initial license revenue was recognized in those foreign currencies. Excluding the impact of foreign currency, total initial license revenue for the six months ended June 30, 2017, increased $39.2 million, or 110%, compared to the same period in 2016.

Monthly License Revenue

Monthly license revenue increased $3.0 million, or 8%, during the six months ended June 30, 2017, as compared to the same period in 2016. The CFS divestiture resulted in decreased monthly license revenue of $0.4 million during the six months ended June 30, 2017. Total monthly license revenue was $0.6 million lower for the six months ended June 30, 2017, compared to the same period in 2016 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of CFS and foreign currency, total monthly license revenue for the six months ended June 30, 2017, increased $4.0 million, or 11%, compared to the same period in 2016. The increase in monthly license revenue is largely attributable to the addition of new customers and an increase in the monthly license fees charged to existing customers.

Maintenance Revenue

Maintenance revenue during the six months ended June 30, 2017, as compared to the same period in 2016 decreased $7.2 million, or 6%. The CFS divestiture resulted in decreased maintenance revenue of $0.4 million during the six months ended June 30, 2017. Total maintenance revenue was $1.5 million lower for the six months ended June 30, 2017, as compared to the same period in 2016 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of CFS and foreign currency, total maintenance revenue for the six months ended June 30, 2017, decreased $5.3 million, or 5%, compared to the same period in 2016, which is primarily attributable to the recognition of cumulative deferred maintenance revenue for certain customer contracts due to meeting required revenue recognition criteria during the six months ended June 30, 2016 and certain customers electing to cancel premium maintenance prior to the six months ended June 30, 2017. These decreases were partially offset by maintenance revenue from sales of licensed products to new and existing customers prior to and during the six months ended June 30, 2017.

Services Revenue

Services revenue during the six months ended June 30, 2017, as compared to the same period in 2016 decreased by $8.3 million, or 19%. The CFS divestiture resulted in decreased services revenue of $1.1 million during the six months ended June 30, 2017. Total services revenue was $0.2 million lower for the six months ended June 30, 2017, as compared to the same period in 2016 due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of CFS and foreign currency, total services revenue for the six months ended June 30, 2017, decreased $7.0 million, or 16%, compared to the same period in 2016. During the six months ended June 30, 2016, we completed or neared completion of several large, complex projects that resulted in recognition of services revenue as the work was performed and the projects were completed. The number and magnitude of such projects was lower during the six months ended June 30, 2017. Additionally, our customers continue to transition from on-premise to on-demand software solutions. Services work performed in relation to our on-demand software solutions is recognized over a longer service period and is classified as SaaS and Platform revenue.

Operating Expenses

Total operating expenses for the six months ended June 30, 2017 increased $19.1 million, or 4%, as compared to the same period in 2016, excluding the gain on sale of CFS assets.

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The CFS divestiture resulted in a $15.2 million decrease in total operating expenses for the six months ended June 30, 2017.

For the six months ended June 30, 2017, there was $46.7 million of expense recorded in relation to the BHMI judgment. Total operating expenses were $2.7 million lower for the six months ended June 30, 2017, compared to the same period in 2016, due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of CFS, the BHMI judgment, and foreign currency, operating expenses decreased $9.7 million, or 2%, for the six months ended June 30, 2017, principally reflecting lower research and development expenses and lower general and administrative expenses, partially offset by higher cost of revenue and higher depreciation and amortization expense.

Cost of Revenue

Cost of revenue decreased $4.9 million, or 2%, during the six months ended June 30, 2017, compared to the same period in 2016. The CFS divestiture resulted in a decrease of $10.4 million in cost of revenue for the six months ended June 30, 2017. Cost of revenue was approximately $1.5 million lower due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of CFS and foreign currency, cost of revenue increased $7.0 million, or 3%, for the six months ended June 30, 2017, primarily due to a $10.6 million increase in payment card interchange fees, partially offset by lower personnel and related expenses.

Research and Development

R&D decreased $17.8 million, or 20%, during the six months ended June 30, 2017, as compared to the same period in 2016. The CFS divestiture resulted in a decrease of $1.6 million in R&D for the six months ended June 30, 2017. Excluding the impact of CFS, research and development expenses decreased $16.2 million, or 18%, for the six months ended June 30, 2017, primarily due to a decrease in personnel and related expenses, including a $6.1 million decrease in stock-based compensation.

Selling and Marketing

Selling and marketing expense decreased $2.8 million, or 5%, during the six months ended June 30, 2017, as compared to the same period in 2016. The CFS divestiture resulted in a decrease of $1.6 million in selling and marketing for the six months ended June 30, 2017. Selling and marketing was $0.7 million lower for the six months ended June 30, 2017, as compared to the same period in 2016, due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of CFS and foreign currency, selling and marketing expense decreased $0.5 million, or 1%, for the six months ended June 30, 2017, due to a decrease in personnel and related expenses as a result of a decrease in new bookings.

General and Administrative

General and administrative expense increased $44.4 million during the six months ended June 30, 2017, as compared to the same period in 2016. During the six months ended June 30, 2017, we recognized $46.7 million of litigation expense in relation to the BHMI judgment. The CFS divestiture resulted in a decrease in general and administrative expense of $1.0 million for the six months ended June 30, 2017. General and administrative expense was approximately $0.1 million lower due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of the BHMI judgment, CFS, and foreign currency, general and administrative expense decreased $1.2 million, or 2%, for the six months ended June 30, 2017, due to a $4.1 million decrease in divestiture and integration related expenditures, partially offset by a $2.9 million increase in personnel and related expenses.

Gain on Sale of CFS Assets

On March 3, 2016, the Company completed the sale of its CFS related assets and liabilities to Fiserv for $200.0 million and recognized a pre-tax gain of $152.0 million.

Depreciation and Amortization

Depreciation and amortization increased $0.2 million, or less than 1%, during the six months ended June 30, 2017, as compared to the same period in 2016. The CFS divestiture resulted in a $0.6 million decrease in depreciation and amortization for the six months ended June 30, 2017. Depreciation and amortization was approximately $0.3 million lower due to the impact of foreign currencies weakening against the U.S. dollar. Excluding the impact of CFS and foreign currency, depreciation and amortization increased $1.1 million, or 3%, primarily due to an increase in capital expenditures.

Other Income and Expense

Interest expense for the six months ended June 30, 2017 increased $0.7 million, or 3%, as compared to the same period in 2016 due to $1.4 million of interest expense recognized on the BHMI judgement during the six months ended June 30, 2017, partially offset by a decrease in expense on the Credit Agreement due to lower debt balances. Excluding the impact of interest on the BHMI judgment, interest expense for the six months ended June 30 2017 decreased 0.7 million, or 4%, as compared to the same period in 2016.

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Other, net consists of foreign currency gains (losses) and other non-operating items. Foreign currency gains (losses) for the six months ended June 30, 2017 and 2016 were ($1.1) million and $1.7 million, respectively.

Income Taxes

The effective tax rate for the six months ended June 30, 2017 was 44%. The earnings of our foreign entities for the six months ended June 30, 2017 were $25.4 million. The tax rates in the foreign jurisdictions in which we operate are less than the domestic tax rate. The effective tax rate for the six months ended June 30, 2017 was impacted by profits and losses in certain foreign jurisdictions taxed at lower rates and domestic losses taxed at higher rates.

The effective tax rate for the six months ended June 30, 2016 was 21%. The earnings of our foreign entities for the six months ended June 30, 2016 were $27.6 million. The tax rates in the foreign jurisdictions in which we operate are less than the domestic tax rate. The effective tax rate for the six months ended June 30, 2016 was impacted by foreign profits taxed at lower rates. The effective tax rate was also reduced by a release of $10.1 million in the valuation allowance previously established against foreign tax credits that are now expected to be fully utilized as a result of the sale of the CFS assets and liabilities.

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

In January 2017, the Company announced a change in organizational structure to align with its strategic direction. As a result, beginning in the first half of 2017, the Company reports financial performance based on its new segments, ACI On Premise and ACI On Demand, and analyzes operating income as a measure of segment profitability.

The Company s chief operating decision maker (CODM), which is also our Chief Executive Officer, together with other senior management personnel, focus their review of consolidated financial information and the allocation of resources based upon the operating results, including revenues and operating income, for the segments ACI On Premise and ACI On Demand, separate from the Corporate operations.

ACI On Premise serves customers who manage their software on site. These on-premise customers use the Company s software to develop sophisticated, custom solutions, which are often part of a larger system located and managed at the customer site. These customers require a level of control, customization, and flexibility that ACI On Premise solutions can offer, and they have the resources and expertise to take a lead role in managing these solutions.

ACI On Demand serves the needs of retail and financial institutions who use payments to facilitate their core business. The Company sees an increasing number of customers opting for software as a service and platform as a service offerings, which offer reduced complexity and cost as well as the ability to rapidly implement and scale.

Revenue is attributed to the reportable segments based upon the product sold and mechanism for delivery to the customer. Expenses are attributed to the reportable segments in one of three methods, (1) direct costs of the segment,

(2) labor costs that can be attributed based upon time tracking for individual products, or (3) costs that are allocated. Allocated costs are generally marketing and sales related activities as well as information technology and facilities related expense for which multiple segments benefit. The Company also allocates certain depreciation costs to the segments.

Corporate and other consists of the corporate overhead costs that are not allocated to reportable segments. These overhead costs relate to human resources, finance, legal, accounting, merger and acquisition activity, amortization of acquisition-related intangibles, and other costs that are not considered when management evaluates segment performance. For the three and six months ended June 30, 2017, Corporate and other includes $46.7 million of general and administrative expense for the legal judgment discussed in Note 12. For the six months ended June 30, 2016, Corporate and other also includes revenue and operating income from the operations and sale of CFS related assets and liabilities of $15.4 million and $152.2 million, respectively.

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The following is selected financial data for the Company s reportable segments for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
ACI On Premise	$ 127,194	$ 117,246	$ 259,102	$ 229,286
ACI On Demand	113,405	102,684	212,959	201,294
Corporate and other				15,416
	$ 240,599	$ 219,930	$ 472,061	$ 445,996
Depreciation and amortization expense:				
ACI On Premise	$ 3,333	$ 3,430	$ 6,594	$ 7,345
ACI On Demand	9,009	6,935	17,397	14,357
Corporate and other	13,239	13,978	27,228	29,153
	$ 25,581	$ 24,343	$ 51,219	$ 50,855
Stock-based compensation expense:				
ACI On Premise	$ 1,899	$ 1,586	$ 3,115	$ 3,452
ACI On Demand	1,894	1,582	3,108	3,443
Corporate and other	4,550	10,139	8,417	16,123
	$ 8,343	$ 13,307	$ 14,640	$ 23,018
Operating income (loss):				
ACI On Premise	$ 57,296	$ 37,614	$ 121,214	$ 73,195
ACI On Demand	(11,448)	(11,742)	(28,057)	(20,564)
Corporate and other	(84,291)	(52,444)	(127,977)	57,509
	$ (38,443)	$ (26,572)	$ (34,820)	$ 110,140

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.

Available Liquidity

The following table sets forth our available liquidity for the periods indicated (amount in thousands):

	June 30,	
	2017	2016
Cash and cash equivalents	$ 95,357	$ 52,463
Availability under Revolving Credit Facility	495,000	203,000
Total liquidity	$ 590,357	$ 255,463

The increase in total liquidity is primarily attributable to additional committed revolving credit facility of $250 million (in accordance with the February 24, 2017 amendment to the Credit Agreement) and positive cash flow from operating activities of $99.1 million partially offset by net repayments of $48.7 million on the Credit Facility, $5.3 million of payments related to debt issuance costs and $6.0 million of payments on other debt and capital leases.

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less. As of June 30, 2017, $56.0 million of the $95.4 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.

	Six Months Ended June 30,	
	2017	2016
Net cash provided by (used by):		
Operating activities	$ 99,097	$ 57,569
Investing activities	(26,235)	159,888
Financing activities	(55,406)	(265,873)

Cash Flows from Operating Activities

Net cash flows provided by operating activities for the six months ended June 30, 2017 was $99.1 million as compared to $57.6 million during the same period in 2016. The comparative period increase was primarily due to the timing of payments and cash collections from customers during the first six months of 2017 compared to the same period in 2016. Our current policy is to use our operating cash flow primarily for funding capital expenditures, lease payments, stock repurchases, and acquisitions.

Cash Flows from Investing Activities

During the first six months of 2017, we used cash of $26.2 million to purchase software, property and equipment, as compared to $33.1 million during the same period in 2016. During the first six months of 2016, we received proceeds of $200.0 million from the sale of the CFS related assets and liabilities.

Cash Flows from Financing Activities

Net cash flows used by financing activities for the six months ended June 30, 2017 was $55.4 million as compared to $265.9 million during the same period in 2016. During the first six months of 2017, we received net proceeds of $39.3 million on the Term Credit Facility and repaid a net $88.0 million on the Revolving Credit Facility. In addition, during the first six months of 2017, we received proceeds of $9.4 million from the exercises of stock options and the issuance of common stock under our 2005 Employee Stock Purchase Plan, as amended, and used $4.8 million for the repurchase of restricted stock for tax withholdings. During the six months ended June 30, 2016, we used a portion of the proceeds from the CFS divestiture to repay $156.0 million on the Revolving Credit Facility and $47.6 million on the Term Facility. We used $60.1 million to repurchase shares of our common stock during the first six months of 2016. In addition, during the first six months of 2016, we received proceeds of $10.2 million from the exercises of stock options and the issuance of common stock under our 2005 Employee Stock Purchase Plan, as amended, and used less than $1.4 million for the repurchase of restricted stock for tax withholdings.

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

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

Debt

As of June 30, 2017, we had $404.6 million outstanding under our Term Credit Facility with up to $495.0 million of unused borrowings under the Revolving Credit Facility portion of the Credit Agreement, as amended. The amount of unused borrowings actually available varies in accordance with the terms of the agreement. The Credit Agreement contains certain affirmative and negative covenants, including limitations on the incurrence of indebtedness, asset dispositions, acquisitions, investments, dividends and other restricted payments, liens and transactions with affiliates. The Credit Agreement also contains financial covenants relating to maximum permitted leverage ratio and the minimum interest coverage ratio. The facility does not contain any subjective acceleration features and does not have any required payment or principal reduction schedule and is included as a long-term liability in our condensed consolidated balance sheet. On June 27, 2017, the Company and the Administrative Agent entered into an amendment to the Credit Agreement. The amendment revised the definition of Consolidated EBITDA to exclude the expense from the BHMI judgment and related fees, expenses, and interest thereto, up to $50 million from the calculation in the period recorded. At June 30, 2017 (and at all times during this period) we were in compliance with our debt covenants. The interest rate in effect at June 30, 2017 was 3.23%.

On February 29, 2016, the Company entered into a standby letter of credit (the Letter of Credit), under the terms of the Credit Agreement, for $25.0 million. On October 26, 2016, the Letter of Credit was renewed at $7.5 million. On June 15,

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2017, the Letter of Credit was renewed at $5.0 million, which expires on September 30, 2017. At any time the Company may request to close the Letter of Credit. The Letter of Credit reduces the maximum available borrowings under the Revolving Credit Facility to $495.0 million. Upon expiration of the Letter of Credit, maximum borrowing capacity will be $500.0 million.

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

Stock Repurchase Program

As of September 12, 2012, our Board of Directors had approved a stock repurchase program authorizing us, from time to time as market and business conditions warrant, to acquire up to $262.1 million of our common stock. On September 13, 2012, our Board of Directors approved the repurchase of up to 7,500,000 shares of our common stock, or up to $113.0 million, in place of the remaining repurchase amounts previously authorized. In July 2013 and again on February 24, 2014, our Board of Directors approved an additional $100.0 million for the stock repurchase program, for a total of an additional $200.0 million.

The Company did not repurchase any shares under the program during the six months ended June 30, 2017. Under the program to date, the Company has repurchased 40,129,393 shares for approximately $455.9 million. The maximum remaining authorized for purchase under the stock repurchase program was approximately $78.2 million as of June 30, 2017.

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

Contractual Obligations and Commercial Commitments

For the six months ended June 30, 2017, 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, 2016 other than the items below.

	Payments due by Period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Contractual Obligations					
Term credit facility	$ 404,625	$ 20,750	$ 57,063	$ 326,812	$
Term credit facility interest (1)	52,347	12,818	23,311	16,218	

Total	$ 456,972	$ 33,568	$ 80,374	$ 343,030	$

(1) Based upon the Credit Facility debt outstanding and interest rate in effect at June 30, 2017 of 3.23%.
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 June 30, 2017 is $24.7 million.

Critical Accounting Estimates

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

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

- Revenue Recognition
- Allowance for Doubtful Accounts
- Business Combinations
- Intangible Assets and Goodwill
- Stock-Based Compensation
- Accounting for Income Taxes

During the six months ended June 30, 2017, 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, 2016, filed on March 1, 2017, for a more complete discussion of our critical accounting policies and estimates.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Excluding the impact of changes in interest rates and the uncertainty in the global financial markets, there have been no material changes to our market risk for the six months ended June 30, 2017. We conduct business in all parts of the world and are thereby exposed to market risks related to fluctuations in foreign currency exchange rates. The U.S. dollar is the single largest currency in which our revenue contracts are denominated. Thus, any decline in the value of local foreign currencies against the U.S. dollar results in our products and services being more expensive to a potential foreign customer, and in those instances where our goods and services have already been sold, may result in the receivables being more difficult to collect. Additionally, any decline in the value of the U.S. dollar in jurisdictions where the revenue contracts are denominated in U.S. dollars and operating expenses are incurred in local currency will have an unfavorable impact to operating margins. We at times enter into revenue contracts that are denominated in the country s local currency, principally in Australia, Canada, the United Kingdom and other European countries. This practice serves as a natural hedge to finance the local currency expenses incurred in those locations. We have not entered into any foreign currency hedging transactions. We do not purchase or hold any derivative financial instruments for the purpose of speculation or arbitrage.

The primary objective of our cash investment policy is to preserve principal without significantly increasing risk. Based on our cash investments and interest rates on these investments at June 30, 2017, and if we maintained this level of similar cash investments for a period of one year, a hypothetical ten percent increase or decrease in effective interest rates would increase or decrease interest income by less than $0.1 million annually.

We had approximately $704.6 million of debt outstanding at June 30, 2017 with $300.0 million in Senior Notes and $404.6 million outstanding under our Credit Facility. Our Senior Notes are fixed-rate long-term debt obligations with a 6.375% interest rate. Our Credit Facility has a floating rate which was 3.23% at June 30, 2017. The potential increase (decrease) in interest expense for the Credit Facility from a hypothetical ten percent increase (decrease) in effective interest rates would be approximately $1.3 million.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report, June 30, 2017. 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 June 30, 2017.

Changes in Internal Control over Financial Reporting

There have been no changes during our quarter ended June 30, 2017 in our internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our management, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer evaluated any change in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) during the Company s quarter ended June 30, 2017, and determined that there were no other changes in the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect the Company s internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On September 23, 2015, a jury verdict was returned against ACI Worldwide Corp. (ACI Corp.), a subsidiary of the Company, for $43.8 million in connection with counterclaims brought by Baldwin Hackett & Meeks, Inc. (BHMI) in the District Court of Douglas County, Nebraska. On September 21, 2012, ACI Corp. had sued BHMI for misappropriation of ACI Corp. s trade secrets. The jury found that ACI Corp. had not met its burden of proof regarding these claims. On March 6, 2013, BHMI asserted counterclaims for breach of a non-disclosure agreement, tortious interference and violation of the Nebraska anti-monopoly statute, all of which were alleged to arise out of ACI Corp. s filing of its lawsuit. On September 23, 2015, the jury found for BHMI on its counterclaims and awarded $43.8 million in damages. On January 5, 2016, the court entered a judgment against ACI Corp. for $43.8 million for damages and $2.7 million for attorney fees and costs. ACI Corp. disagreed with the verdicts and judgment, and after the trial court denied ACI Corp. s post-judgment motions, on March 31, 2016, ACI Corp. perfected an appeal of the dismissal of its claims against BHMI and the judgment in favor of BHMI on its counterclaims, and oral arguments were held before the Nebraska Supreme Court on March 3, 2017. On June 9, 2017, the Nebraska Supreme Court affirmed the District Court judgment. The Company recorded expense of $48.1 million during the three and six months ended June 30, 2017, of which $46.7 million is included in general and administrative expense and $1.4 million is in interest expense in the accompanying condensed consolidated statement of operations. The Company expects to pay the judgment within 12 months.

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, 2016. 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 June 30, 2017:

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
April 1, 2017 through April 30, 2017		$		$ 78,235,000
				78,235,000

May 1, 2017 through May 31, 2017				
June 1, 2017 through June 30, 2017	70,739(1)		22.83	78,235,000
Total	70,739	$	22.83	

(1) Pursuant to our 2005 Incentive Plan, we granted restricted share awards (RSAs). Under each arrangement, stock is issued without direct cost to the employee. During the three months ended June 30, 2017, 293,392 shares of the RSAs vested. We withheld 70,739 of those shares to pay the employees portion of applicable payroll taxes.

In fiscal 2005, we announced that our Board of Directors approved a stock repurchase program authorizing us, from time to time as market and business conditions warrant, to acquire up to $80.0 million of our common stock, and that we intended to use existing cash and cash equivalents to fund these repurchases. Our Board of Directors approved an increase of $30.0 million, $100.0 million, and $52.1 million to the stock repurchase program in May 2006, March 2007, and February 2012, respectively, bringing the total of the approved program to $262.1 million. On September 13, 2012, our Board of Directors approved the repurchase of up to 7,500,000 shares of our common stock, or up to $113.0 million, in place of the remaining repurchase amounts previously authorized. In July, 2013 and again on February 24, 2014, our Board of Directors approved an additional $100.0 million for stock repurchases for a total additional $200.0 million. Approximately $78.2 million remains available at June 30, 2017. 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.

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 No.	Description
3.01(1)	2014 Amended and Restated Certificate of Incorporation of the Company
3.02(2)	Amended and Restated Bylaws of the Company
4.01(3)	Form of Common Stock Certificate
31.01	Certification of Principal Executive Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Principal Financial Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.01*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.02*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

* This certification is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.

(1) Incorporated herein by reference to Exhibit 3.1 to the registrant s current report on Form 8-K filed June 24, 2014.

(2) Incorporated herein by reference to Exhibit 3.1 to the registrant s current report on Form 8-K filed February 27, 2017.

(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: July 27, 2017	By: /s/ SCOTT W. BEHRENS Scott W. Behrens *Senior Executive Vice President, Chief Financial Officer and Chief Accounting Officer* *(Principal Financial Officer)*

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