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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from

Commission File Number 0-25346

ACI WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)

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 x 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 x No ¨

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

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

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

As of November 5, 2012, there were 39,384,059 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)

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

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

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)

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

(1) The cost of software license fees excludes charges for depreciation but includes amortization of purchased and developed software for resale. The cost of maintenance, services, and hosting fees excludes charges for depreciation.

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

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ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited and in thousands)

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

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

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ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(unaudited and in thousands)

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

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

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

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

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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 September 30, 2012, and for the three and nine months ended September 30, 2012 and 2011, are unaudited and reflect all adjustments of a normal recurring nature, which are, in the opinion of management, necessary for a fair presentation, in all material respects, of the financial position and operating results for the interim periods. The condensed consolidated balance sheet as of December 31, 2011 is derived from the audited financial statements.

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

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

Revenue

Vendor-Specific Objective Evidence

Certain of the Company s software license arrangements include post contract customer support (maintenance or PCS) terms that fail to achieve vendor-specific objective evidence (VSOE) of fair value due to non-substantive renewal periods, or contain a range of possible non-substantive PCS renewal amounts. As a result of the maturation of certain retail payment engine products, including BASE24, a higher number of software license arrangements in the Americas and Europe Middle East and Africa (EMEA) operating segments fail to achieve VSOE of fair value for PCS due to non-substantive renewal periods, or contain a range of possible non-substantive PCS renewal amounts. For these arrangements, VSOE of fair value of PCS does not exist and revenues for the software license, PCS and services, if applicable, are considered to be one accounting unit and are therefore recognized ratably over the longer of the contractual service term or PCS term once the delivery of both services has commenced. The Company typically classifies revenues associated with these arrangements in accordance with the contractually specified amounts, which approximate fair value assigned to the various elements, including software license fees, maintenance fees and services, if applicable.

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

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

Adoption of New Accounting Pronouncement

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

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

2. Acquisitions

Distra Pty Ltd

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

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

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

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

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North Data Uruguay S.A.

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

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

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

S1 Corporation

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

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

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

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

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

The consideration paid by the Company to complete the acquisition has been allocated preliminarily to the assets acquired and liabilities assumed based upon their estimated fair values as of the date of the acquisition. The allocation of purchase price is based upon certain external valuations and other analyses that have not been completed as of the date of this filing, including, but not limited to, certain tax matters. Accordingly, the purchase price allocations are preliminary and are subject to future adjustments during the maximum one-year allocation period.

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

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

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

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

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

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

Noncurrent liabilities acquired	9,084
Total liabilities acquired	106,860
Net assets acquired	$ 587,284

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During the three months ended September 30, 2012, the Company made adjustments to the preliminary purchase price allocation as additional information became available to property and equipment, software, other noncurrent assets, current deferred revenue, other current and noncurrent liabilities. These adjustments and any resulting adjustments to the statements of operations were not material to the Company s previously reported operating results or financial position.

Factors contributing to the purchase price that resulted in the goodwill (which is not tax deductible) include the acquisition of management, sales, and technology personnel with the skills to market new and existing products of the Company, enhanced global product capabilities, and complementary products and customers.

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

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

3. Debt

Credit Facility

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

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

On September 21, 2012, the Company borrowed an additional $24.0 million under the Revolving Credit Facility to partially fund the repurchase of the majority of its outstanding common stock warrants held by International Business Machines (IBM). For further discussion on the common stock warrants see Note 16, International Business Machines Corporation Alliance Agreement.

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

In addition to paying interest on the outstanding principal under the Credit Facility, the Company is required to pay a commitment fee in respect of the unutilized commitments under the Revolving Credit Facility, payable quarterly in arrears. The Company is also required to pay letter of credit fees on the maximum amount available to be drawn under all outstanding letters of credit in an amount equal to the applicable margin on LIBOR based borrowings under the Revolving Credit Facility on a per annum basis, payable quarterly in arrears, as well as customary fronting fees for the issuance of letters of credit fees and agency fees.

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

The Company is permitted to voluntarily reduce the unutilized portion of the commitment amount and repay outstanding loans under the Credit Facility at any time without premium or penalty, other than customary breakage costs with respect to LIBOR based loans.

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

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

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

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

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

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

4. Stock-Based Compensation Plans

Employee Stock Purchase Plan

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

Stock Incentive Plans Active Plans

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

Stock-Based Payments

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

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

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

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

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

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

No options were granted during the three months ended September 30, 2011. Expected volatilities are based on the Company s historical common stock volatility derived from historical stock price data for historical periods commensurate with the options expected life. The expected life is the average number of years that the Company estimated that the options will be outstanding, based primarily on historical employee option exercise behavior. The risk-free interest rate is based on the implied yield currently available on United States Treasury zero coupon issues with a term equal to the expected term at the date of grant of the options. The expected dividend yield is zero as the Company has historically paid no dividends and does not anticipate dividends to be paid in the future.

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

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

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

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

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

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

In relation to the acquisition of S1 Corporation discussed in Note 2, the Company amended the S1 Corporation 2003 Stock Incentive Plan, as previously amended and restated (the S1 2003 Incentive Plan). Restricted share awards (RSAs) were granted to S1 employees by S1 Corporation prior to the acquisition by the Company in accordance with the terms of the Transaction Agreement (Transaction RSAs) under the S1 2003 Incentive Plan. These are the only equity awards currently outstanding under the S1 2003 Incentive Plan and no further grants will be made.

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

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

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

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

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

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

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

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5. Goodwill

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

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

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

6. Software and Other Intangible Assets

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

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

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

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

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

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

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

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

7. Fair Value of Financial Instruments

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

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

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

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

Available-for-Sale Securities. Equity securities are reported at fair value utilizing Level 1 inputs. The Company s equity securities of $10.6 million at December 31, 2011 were comprised entirely of S1 Corporation common stock. The Company utilized quoted prices from an active exchange market to fair value its equity securities. The Company acquired S1 Corporation during the first quarter of 2012, subsequently the S1 common stock has been delisted and all S1 assets and liabilities have been consolidated into the Company s condensed consolidated financial statements as of September 30, 2012. The Company recognized a gain of approximately $1.6 million during the nine months ended September 30, 2012 related to price appreciation of the S1 shares held prior to the acquisition date. See Note 2 for further discussion.

The Company assesses its classifications within the fair value hierarchy at each reporting period. There were no transfers between any levels of the fair value hierarchy during the periods presented in the table below.

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

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8. Corporate Restructuring and Other Organizational Changes

Employee Actions

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

Lease Terminations

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

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

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

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

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

9. Stock Repurchase Plan

As of December 31, 2011, the Company s board of directors had approved a stock repurchase program authorizing the Company, from time to time as market and business conditions warrant, to acquire up to $210 million of its common stock. In February 2012, the Company s board of directors approved an increase of $52.1 million to their current stock repurchase authorization, bringing the total authorization to $262.1 million. Under the program to date, the Company has purchased 9,519,872 shares for approximately $244.9 million. The Company repurchased 1,437,692 shares for $57.8 million during the nine months ended September 30, 2012.

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

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

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

10. Earnings Per Share

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

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

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

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

11. Other Income (Expense), net

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

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

12. Comprehensive Income (Loss)

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

13. Segment Information

The Company s chief operating decision maker, together with other senior management personnel, currently focus their review of consolidated financial information and the allocation of resources based on reporting of operating results, including revenues and operating income, for the geographic regions of the Americas, EMEA and Asia/Pacific and the Corporate line item. The Company s products are sold and supported through distribution networks covering these three geographic regions, with each distribution network having its own sales force. The Company supplements its distribution networks with independent reseller and/or distributor arrangements. All administrative costs that are not directly attributable or reasonably allocable to a geographic segment are tracked in the Corporate line item. As such, the Company has concluded that its three geographic regions are its reportable operating segments.

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

The Company allocates segment support expenses such as global product development, business operations, and product management based upon percentage of revenue per segment. Depreciation and amortization costs are allocated as a percentage of the headcount by segment. The Corporate line item consists of the corporate overhead costs that are not allocated to operating segments. Corporate overhead costs relate to human resources, finance, legal, accounting, merger and acquisition activity and amortization of acquisition-related intangibles and other costs that are not considered when management evaluates segment performance.

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

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

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

(1) The goodwill related to the Distra acquisition is included in Asia/Pacific as of September 30, 2012. See Note 5 for further discussion.

No single customer accounted for more than 10% of the Company s consolidated revenues during the three months and nine ended September 30, 2012 and 2011. No other country outside the United States accounted for more than 10% of the Company s consolidated revenues during the three and nine months ended September 30, 2012. Aggregate revenues attributable to customers in the United Kingdom accounted for 10.1% of the Company s consolidated revenues during the nine months ended September 30, 2011. No other country outside the United States accounted for more than 10% of the Company s consolidated revenues during the three months ended September 30, 2011.

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14. Income Taxes

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

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

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

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

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

15. Commitments and Contingencies

Operating Leases Acquired

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

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

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

New Operating Leases entered into in 2012

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

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

Legal Proceedings

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company is not currently a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, the Company believes would be likely to have a material effect on the Company s financial condition, results of operations or cash flows.

Indemnities

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

16. International Business Machines Corporation Alliance Agreement

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

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

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

No warrants were outstanding at September 30, 2012.

17. International Business Machines Corporation Information Technology Outsourcing Agreement

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

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

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

Forward-Looking Statements

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

Forward-looking statements in this report include, but are not limited to, statements regarding future operations, business strategy, business environment, key trends, and, in each case, statements related to expected financial and other benefits. Many of these factors will be important in determining our actual future results. Any or all of the forward-looking statements in this report