ACI WORLDWIDE, INC.
Form 10-K
February 28, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

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 3000

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

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

Securities registered pursuant to Section 12(b) of the Act: Common Stock, $.005 par value, NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the 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 Act). Yes ¨ No x

The aggregate market value of the Company s voting common stock held by non-affiliates on June 30, 2013 (the last business day of the registrant s most recently completed second fiscal quarter), based upon the last sale price of the common stock on that date of $46.48 was $1,814,567,952. For purposes of this calculation, executive officers, directors and holders of 10% or more of the outstanding shares of the registrant s common stock are deemed to be affiliates of the registrant and are excluded from the calculation.

As of February 24, 2014, there were 38,451,657 shares of the registrant s common stock outstanding.

Documents Incorporated by Reference Portions of the registrant s definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 18, 2014, are incorporated by reference in Part III of this report. This registrant s Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

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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 product, BASE24-eps;

demand for our products;

restrictions and other financial covenants in our credit facility;

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;

the accuracy of management s backlog estimates;

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;

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;

difficulty meeting our debt service requirements;

impairment of our goodwill or intangible assets;

risks from potential future litigation;

future acquisitions, strategic partnerships and investments and litigation;

risk of difficulties integrating Online Resources Corporation (ORCC) and Official Payments Holdings, Inc. (OPAY) which may cause us to fail to realize anticipated benefits of the acquisitions;

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

risks of failing to comply with money transmitter rules and regulations;

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

our compliance with privacy regulations;

risks of being subject to security breaches or viruses;

the protection of our intellectual property in intellectual property litigation;

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

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;

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

our offshore software development activities;

risks from operating internationally;

exposure to unknown tax liabilities; and

volatility in our stock price.

The cautionary statements in this report expressly qualify all of our forward-looking statements. Factors that could cause actual results to differ from those expressed or implied in the forward-looking statements include, but are not limited to, those discussed in Item 1A in the section entitled Risk Factors .

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Trademarks and Service Marks

ACI, the ACI logo, ACI Worldwide, BASE24-eps, BASE24, OpeN/2, among others, are registered trademarks and/or registered service marks of ACI Worldwide, Inc., or one of its subsidiaries, in the United States and/or other countries. ACI Payment Systems, ACI Payment Systems logo, ACI Payment Systems Trusted Globally, Agile Payment Solution, ACI Enterprise Banker, ACI Global Banker, ACI Retail Commerce Server, AS/X, ACI Issuer, ACI Acquirer, ACI Interchange, ACI Token Manager, ACI Payments Manager, ACI Card Management System, ACI Smart Chip Manager, ACI Dispute Management System, ACI Simulation Services for Enterprise Testing or ASSET, ACI Money Transfer System, NET24, ACI Proactive Risk Manager, PRM, ACI Case Manager System, ACI Communication Services, ACI Enterprise Security Services, ACI Web Access Services, ACI Monitoring and Management and ACI DataWise, ACI Universal Payments Platform, UPP, ACI Universal Online Banker, ACI Mobile Channel Manager among others, have pending registrations or are common-law trademarks and/or service marks of ACI Worldwide, Inc., or one of its subsidiaries, in the United States and/or other countries. Other parties marks referred to in this report are the property of their respective owners.

PART I

ITEM 1. BUSINESS

General

ACI Worldwide, Inc. (ACI , ACI Worldwide , the Company, we, us, or our) is a Delaware corporation incorpo November 1993 under the name ACI Holding, Inc. ACI is largely the successor to Applied Communications, Inc. and Applied Communications Inc. Limited, which we acquired from Tandem Computers Incorporated on December 31, 1993. On July 24, 2007, the Company changed our corporate name from Transaction Systems Architects, Inc. to ACI Worldwide, Inc. We have been marketing our products and services under the ACI Worldwide brand since 1993 and have gained significant market recognition under this brand name.

The Company develops, markets, installs and supports a broad line of software products and services primarily focused on facilitating electronic payments. In addition to our own products, we distribute or act as a sales agent for software developed by third parties. These products and services are used principally by financial institutions, retailers, billers and electronic payment processors, both in domestic and international markets. Most of our products are sold and supported through distribution networks covering three geographic regions the Americas, Europe/Middle East/Africa (EMEA) and Asia/Pacific. Each distribution network has its own sales force that it supplements with independent reseller and/or distributor networks.

The electronic payments market is comprised of financial institutions, retailers, billers, third-party electronic payment processors, payment associations, switch interchanges and a wide range of transaction-generating endpoints, including automated teller machines (ATM), retail merchant locations, bank branches, mobile phones, corporations and Internet commerce sites. The authentication, authorization, switching, settlement and reconciliation of electronic payments is a complex activity due to the large number of locations and variety of sources from which transactions can be generated, the large number of participants in the market, high transaction volumes, geographically dispersed networks, differing types of authorization, and varied reporting requirements. These activities are typically performed online and are often conducted 24 hours a day, seven days a week.

ACI combines a global perspective with local presence to tailor electronic payment solutions for our customers. The Company believes that it has one of the most diverse and robust product portfolios in the bill payments industry with application software spanning the entire payments value chain. The Company also believes that its strong financial performance has been attributable to its ability to design and deliver quality products coupled with its ability to identify and successfully consummate and integrate strategic acquisitions.

Recent Acquisitions

Fiscal 2013 Acquisitions

Official Payments Holdings, Inc.

On November 5, 2013, we completed the tender offer for Official Payments Holdings, Inc. (OPAY) and all its subsidiaries. OPAY is a leading provider of electronic bill payment solutions in the U.S., serving federal, state and local governments, municipal utilities, higher education institutions and charitable giving organizations. OPAY will further extend ACI s leadership in the fast-growing Electronic Bill Presentment and Payment (EBPP) space, expanding our portfolio across key sectors.

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Online Resources Corporation

On March 11, 2013, we completed the tender offer for Online Resources Corporation (ORCC) and all its subsidiaries. ORCC is a leading provider of online banking and full service bill pay solutions. ORCC added EBPP solutions as a strategic part of ACI s Universal Payments portfolio. ORCC also strengthens our online banking capabilities with complementary technology, and expands our leadership in serving community banking and credit union customers.

Profesionales en Transacciones Electronicas S.A.

We acquired 100% of Profesionales en Transacciones Electronicas S.A. Venezuela (PTESA-V), 100% of Profesionales en Transacciones Electronicas S.A. Ecuador (PTESA-E), and the ACI related assets of Profesionales en Transacciones Electronicas S.A. Colombia (PTESA-C), collectively PTESA , on March 1, 2013. PTESA had been a long-term partner of the Company, serving customers in South America in sales, service and support functions. The addition of the PTESA team to ACI reinforces our commitment to serve the Latin American market.

Fiscal 2012 Acquisitions

Distra Pty Ltd

On September 18, 2012, we closed the acquisition of Distra Pty Ltd (Distra). The Distra Universal Payments Platform delivers a fault-tolerant, Service-Oriented Architecture (SOA)-based payments platform that helps to significantly reduce the risk and cost of payments transformation without compromising security, performance, scalability and reliability. The integration of ACI and Distra technologies enables 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 enables ACI s payment products to integrate more tightly with customers enterprise architectures, reducing their total cost of ownership.

North Data Uruguay S.A.

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

SI Corporation

On February 10, 2012, we acquired S1 Corporation (S1) and all its subsidiaries. The acquisition of S1 further increased ACI s international capacity and further positioned the Company as a full-service global leader of financial and payment solutions, with the ability to deliver a broader suite of payment offerings globally targeting financial organizations, processors and retailers. supported by a global team of expert, local employees. S1 brought to the Company a highly complementary set of products, strong global capabilities and success with a range of financial institutions and retailers.

Products

ACI s integrated suite of software products and hosted services deliver a broad range of solutions for payments processing, card and merchant management, EBPP, online banking, mobile, branch and voice banking, fraud detection and trade finance. Trusted by nearly 2,600 organizations globally, ACI serves four primary market audiences:

- Financial institutions, including national, regional and global banks, community banks and credit unions
- Processors
- Retailers
- Billers

Our products cover several different domains within the payments and banking marketplace:

- **Online Banking and Cash Management** the management of payments and cash flows across accounts globally through the online or mobile channel
- **Branch** the management and processing of monetary, non-monetary, sales and account origination financial transactions

- **Trade Finance** the management of all trade related transaction types, both traditional trade and open account instruments with the ability for end users to view and track those transactions through the online channel

- **Community Financial Services** the online and mobile banking and payment systems, and security solutions that service community banks and credit unions

- **Retail Banking Payments** we provide the software to support in-house issuance of payment instruments (e.g. card, tokens and virtual cards) and the management of a consumer payment from transaction acquiring all through the lifecycle within the banking system to settlement; which we split into Payments Processing and Card and Merchant Management

- **Wholesale Banking Payments** the management of primarily corporate payments and messages through their lifecycle including real time gross settlement (RTGS) payments, ACH payments, and SWIFT transactions

- **Merchant Retail** the management of a consumer payment within a merchant retailer and supporting services such as the management of store and gift card and loyalty programs

- **Payment Fraud Management** the securing of payments against fraud and money laundering

- **Payment Infrastructure** the tools and infrastructure to operate and optimize the payments system

- **Billers** Electronic bill presentment and payment enables the presentment of bills and the collection of payments for these bills from consumers for billers, including, for example, tax authorities, higher education providers, utilities, and health care providers

The sections below provide an overview of our major software products within these domains.

In September 2009, we announced our ACI Agile Payments Solution, the vision for our payments products. The vision recognizes the long term direction to migrate payments processing from the current discrete structures to a set of service-based enterprise payments solutions. The first stage of the strategy was to deliver tight integration between the current products allowing for the delivery of capability solutions that cross domains, for instance Online Banking Fraud Detection. We continue to evolve our solution offerings in a way that organizations can benefit from the integrated and enterprise capabilities of the entire ACI product portfolio as we provide the market with a comprehensive set of payment solutions covering a wide range of needs. As we progress on this journey we have made significant investments to accelerate the delivery for our customers through both internal development and acquisition. Notably in 2012, ACI acquired S1 and Distra, both of which expanded the breadth and scale of ACI s offerings, as well as accelerated the delivery of our technology vision to the marketplace. The EBPP related acquisitions in 2013 further added to our payments products portfolio and added assets that both allow us to provide a wider set of payments solutions to new market segments and complement our existing solutions. Our strategy allows ACI to deliver an end-to-end payment system that supports any payment type, device or channel globally. During 2013 this comprehensive view of our payments capabilities, technologies and solutions has been rebranded as

Universal Payments which supersedes the use of the ACI Agile Payments Solution terminology. Universal Payments, or UP now describes the breadth and depth of ACI s product offerings. UP defines ACI s true enterprise or universal payments capabilities targeting any channel, any network, and any payment type. ACI UP solutions empower customers to regain control, choice and flexibility in today s complex payment environment, get to market more quickly and reduce operational costs.

Online Banking and Cash Management, Branch and Trade Finance

Within the Online Banking and Cash Management, Branch & Trade domain, ACI has the following products:

ACI Enterprise Banker is a comprehensive Internet-based business banking product for financial institutions including banks, brokerage firms and credit unions and can be flexibly packaged for small, medium and large business customers. This product provides these customers with electronic payment initiation capability, information reporting, and numerous other payment related services that allow the business customer to manage all its banking needs via the Internet. In 2010, the functionality was extended to include mobile banking services solutions. With our partner mShift, we support tablets such as the iPad.

ACI Global Banker provides single-window access to corporate cash management, trade finance, FX services, reporting and data exchange. Global Banker supports single-window, Single Sign-On access to a bank s corporate Internet banking platform. This enterprise-wide, multi-country, multi-language, multi-currency solution allows banks of all sizes to uniquely package products and services for different countries and segments or even individual customers from a single, flexible platform.

ACI Universal Online Banker is a comprehensive Internet-based banking product for financial institutions including banks, brokerage firms and credit unions and can be flexibly packaged for small, medium and large business customers as well as individual consumers. This product provides these customers with electronic payment initiation capability, information reporting, and numerous other cash management services that allow the business customer to manage all its banking needs via the Internet as well as mobile channels.

InterACT Universal Banker is a multi-channel product suite which supports the processing of monetary, non-monetary, sales and account origination transactions across multiple channels including branch, call center and back office, as well as delivering extended branch support for browser based employees such as relationship managers or calling officers.

ACI Global Trade Manager allows client access that enables corporate clients of the bank to access, enter and track their entire trade portfolio of traditional trade and open account instrument over the Internet. This product is also utilized in the wholesale domain.

ACI Mobile Channel Manager allows organizations to provide consumers, business and corporate customers with mobile access to functions across the banking and payments spectrum. When used with ACI banking products and payment engines, Mobile Channel Manager enables mobile functions that might include account management, balance inquiries, transfers, bill payments, person-to-person (P2P) payments (including PayPal), pre-paid purchases, remote deposit capture, ATM/branch locator, and SMS notifications.

Community Financial Services

Within the Community Financial Services domain, ACI currently offers three main suites of hosted solutions:

Online and Mobile Banking solutions for Community Banks and Credit Unions offers a full-featured self-service banking solution including online banking, voice banking and mobile banking for consumer and small-to-mid-size businesses, all from a single hosted platform. The Web Federal suite provides credit unions with online banking, business solutions, mobile banking, CRM Marketing, and Creative and Web Design services.

ACI Defense is a full-service security solution for community banks and credit unions. The ACI Defense suite of solutions helps U.S. financial institutions address security compliance obligations with firewall and intrusion prevention services, security assessments, vulnerability testing, endpoint and mobile protection, email security and encryption and identity theft/anti-phishing services.

Online Bill Payment and Presentment provides full-service bill payment solutions for community banks and credit unions, including pay-anyone functionality, online bill presentment, P2P and A2A payments and express pay services.

Retail Banking Payments   Payments Processing

Our retail payments processing products are designed to acquire electronic payment transactions from transaction generators and route them to acquiring institutions so that they can be authorized for payment. The software often interfaces with regional or national switches to access the account-holding financial institution or card issuer for approval or denial of the transactions (authorization). The software returns messages to the original transaction generator (e.g. an ATM), thereby completing the transactions. Depending on how the software is configured, it can perform all of the functions necessary to authenticate, authorize, route and settle an electronic payment transaction, or it can interact with other systems to ensure that these functions are performed. Payments processing software may be required to interact with dozens of devices, switch interchanges and communication protocols around the world. We currently offer the following products for this domain:

BASE24-eps is an integrated electronic payments processing product marketed to customers operating electronic payment networks in the retail banking and retail industries. The modular, open architecture of the product enables customers to select the application and system components that are required to operate their networks. BASE24-eps offers a broad range of features and functions for electronic payment processing. BASE24-eps is licensed as a standalone electronic payments solution for financial institutions, retailers and electronic payment processors. BASE24-eps, which operates on International Business Machines (IBM) System z, IBM System p, Hewlett-Packard Company (HP) NonStop, and Oracle Solaris servers, provides flexible integration points to other applications and data within enterprises to support 24-hour per day access to money, services and information.

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The 2013 release of BASE24-eps 2.0 added a number of very significant features, including the ability to route payments to non-card identifiers such as account numbers, email addresses or phone numbers. This enables BASE24-eps customers to more easily support P2P payments, mobile payments, etc. The inclusion of our second generation software development kit (SDK), enhances support for services orientation and additional development and configuration tools and greatly enhances the flexibility of the product, its ability to support new business opportunities and the ease with which it can be implemented.

On the HP NonStop platform, BASE24-eps uses NET24-XPNET, an ACI developed message oriented middleware solution.

Postilion is an integrated electronic payments processing system, primarily deployed on Microsoft Windows servers. It authenticates, authorizes, routes and switches transactions generated at ATMs and merchant point-of-sale (POS) sites as well as provides flexible infrastructure to handle key aspects of the back office functions. The product is used widely by financial institutions across the world, with a particular emphasis on financial institutions in smaller emerging markets. This product is also used in the merchant retail domain.

UP Hub is a payment services hub that enables financial institutions to connect a number of disparate payments solutions into a single overarching payments environment. It provides the ability to orchestrate payment services across the enterprise, easily integrate disparate systems and to have a single view of transaction data. The UP Hub is also used in the Wholesale Banking Payments domain.

ACI continues to support and maintain a number of other retail payments engines which are no longer actively marketed to new customers.

BASE24 is an integrated family of software products previously marketed to customers operating electronic payment networks in the retail banking and retail industries. A substantial portion of ACI s revenues are derived from licensing the BASE24 family of products and providing related services and maintenance as it has been the core of the ACI business since the Company s inception.

The BASE24 product line operates exclusively on HP NonStop servers. The HP NonStop parallel-processing environment offers fault-tolerance, linear expandability and distributed processing capabilities. The combination of features offered by BASE24 and the HP NonStop technology are important characteristics in high volume, 24-hour per day electronic payment systems.

BASE24 makes use of NET24-XPNET, an ACI developed message oriented middleware solution.

During the years ended December 31, 2013, 2012 and 2011, approximately 28%, 32% and 43%, respectively, of our total revenues were derived from licensing the BASE24 product line, which revenue amounts do not include revenue associated with licensing the BASE24-eps product.

Retail Banking Payments Card and Merchant Management

ACI Card and Merchant Management solutions are card issuing and merchant management products, which have been successfully used by the payments industry for many years. These products run on IBM System z, and various Unix and Microsoft Windows servers. The products within back office services are:

ACI Issuer is a modern card and account management system. It has been developed to support national, international, and global financial institutions. The system has full multi-currency, multi-product, multi-institution and multi-language capabilities. It manages card portfolios in different countries and for different issuers on a single platform and has been built to fully comply with EMV standards.

ACI Acquirer supports the full lifecycle of merchant portfolio management, including merchant onboarding, transaction acquisition, interchange fee qualification, settlement and statement generation. The system is enabled with the flexibility acquirers require to manage complex merchant portfolios.

ACI Interchange is the central monetary transaction manager, processing all incoming customer transactions and maintaining a central transactions database. ACI Interchange also manages the clearing and settlement communication with the major international payment schemes, ensuring compliance with Visa, MasterCard, American Express, China Union Pay and JCB. The module can easily be adapted to manage clearing and settlement with additional networks such as domestic payment schemes.

ACI Token Manager consists of a suite of products from ACI s partner Bell Identification B.V. The Smart Card & Application Management System provides for central lifecycle management of smart cards and other tokens as well as the management of the applications activated within the scheme. The Key Management System facilitates the implementation of security concepts based on the generation, storage, recovery, import and distribution of cryptographic keys. The keys are used for encryption and decryption of data and for verification and authorization of trusted parties using digital certificates. Token Manager is also used to support EMV card issuing. ACI Token Manager for Mobile enables the delivery of payment tokens, such as wallets, to mobile phones.

ACI Payments Manager is an integrated, modular software solution that automates the processing, settlement and reconciliation of electronic transactions, as well as provides plastic card issuance and account management. This product is now primarily marketed in North America.

ACI Automated Dispute Manager enables issuers, acquirers, processors and payment networks to streamline and automate the dispute management process through workflow-based software components.

Wholesale Banking Payments

Our wholesale banking solutions are focused on global, super-regional and regional financial institutions that provide treasury management services to large corporations and correspondent banks. In addition, the market includes non-bank financial institutions with the need to conduct their own internal treasury management activities.

ACI Money Transfer System provides high value payments processing, bulk payments processing and SWIFT financial messaging. The high value payments processing function, which produces the majority of revenues for the ACI Money Transfer System, is used to generate, authorize, enrich, route and settle high value wire transfer transactions and ACH transactions in domestic and international environments. The ACI Money Transfer System product operates on IBM System p servers using the AIX operating system.

UP Hub is a payment services hub that enables financial institutions to connect a number of disparate payments solutions into a single overarching payments environment. It provides the ability to orchestrate payment services across the enterprise, easily integrate disparate systems and to have a single view of transaction data. It is often targeted to be used in conjunction with ACI Money Transfer System where the UP Hub provides the orchestration capability and ACI Money Transfer System a comprehensive set of payments fulfillment services. The UP Hub is also used in the Retail Banking Payments domain.

Merchant Retail

Within the Merchant Retail domain, ACI offers the following products:

ACI Retail Commerce Server a solution for retailers, is an integrated suite of electronic payments products that facilitate a broad range of capabilities. These capabilities include prepaid, debit and credit card processing, ACH processing, electronic benefits transfer, card issuance and management, check authorization, customer loyalty programs and returned check collection. The Retail Commerce Server product line operates on open systems technologies such as Microsoft Windows, UNIX and Linux, with most of the current installations deployed on the Microsoft Windows platform. In 2011, ACI acquired ISD and has integrated the acquired functionality into Retail Commerce Server including delivering capability for solving the PCI compliance needs of retailers.

Postilion a global platform for retailers, is an integrated suite of electronic payments products that facilitate a broad range of capabilities. These capabilities include prepaid, debit and credit card processing, ACH processing, electronic benefits transfer, card issuance and management, check authorization, customer loyalty programs and returned check collection. The Postilion product line operates on multiple open systems technologies such as Microsoft Windows and AIX.

ACI In-store Solution supports retailers and drives the retailer s payment portion of the customer s in-store purchase experience. The In-store solution prompts the consumer and gathers the necessary card payment details to process the payment request. Importantly, the solution helps retailers control the costs and risk of key regulatory issues such as PCI compliance and data theft at the point of sale.

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Payment Fraud Management

ACI Proactive Risk Management is a payment fraud detection system designed to help card issuers, merchants, merchant acquirers and financial institutions combat fraud schemes. The system combines the pattern recognition capability of neural-network transaction scoring with custom risk models of expert rules-based strategies and advanced client/server account management software. The real time capability enables fraud assessment to be part of the authorization process preventing fraud from occurring. Proactive Risk Management operates on IBM System z, HP NonStop, Oracle Solaris and Microsoft Windows servers.

As a part of the Proactive Risk Management suite, we utilize ACI Case Manager. This product offers customers the flexibility to automate activities and processes across the complete lifecycle of a case related to fraud. Cases are created when fraud officers checking an alert within Proactive Risk Manager identify fraud or money laundering. The solution is a basic framework that defines processes for researching and resolving cases, including investigation resources, timeframes, escalation paths and alerts. The Case Manager also acts as a central repository for case histories and resource activities to provide organizations with centralized auditing capabilities.

Payments Infrastructure

The Payments Infrastructure products provide specific technology extensions to augment the business services provided in the business service domains described above.

ACI Communication Services provides a range of communication services to enable message exchange on multiple platforms in particular, enabling applications to support legacy protocols, such as SNA and X.25, running over TCP/IP networks. It also supports hybrid networking environments such as IBM s HPR/IP. This set of products runs on HP NonStop, IBM System z and Unix platforms.

ACI Enterprise Security Services is a suite of security solutions that secure access to systems and resources. These products run on the HP NonStop platform and are designed to take advantage of HP NonStop fundamentals.

ACI Web Access Services allows HP NonStop users to securely expose existing applications to peer systems as well as PC clients and web browsers. Web Access Services supports new GUI client development, standard 6530 and 3270E terminal emulation or automated data stream transformation to give users a range of options for integrating NonStop services across the enterprise.

ACI Payment Testing (ASSET) is a simulation and testing tool that allows companies involved in electronic payments to simulate devices and transactions, and perform application testing. ASSET is available for use with BASE24, BASE24-eps, Postilion, and ACI Proactive Risk Manager.

ACI Payment Service Management is a partnership with Integrated Research Limited (Integrated Research) formed in 2010 to resell their Prognosis product. This provides intelligent payment service management through in-depth monitoring and analysis of transactions, applications, supporting IT infrastructure, and payments devices. Prognosis is available for use with BASE24, BASE24-eps, Postilion, ACI Proactive Risk Manager, and ACI Money Transfer System.

ACI Mobile Alerting powered by Spectrum MoneyGuard offers fraud or service alert options in near real-time with SMS messages to their mobile phones of events affecting their banking transactions. When used for fraud alerting, customers have the option of responding via text (two-way communication) and requesting a block of the card and a confirmation is sent.

Billers

Within the biller domain, ACI provides the following products:

Electronic Bill Presentment and Payment (EBPP) enables the presentment of bills and the collection of payments for these bills from consumers for billers, including, for example, tax authorities, higher education providers, utilities, and health care providers.

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Virtual Collection Agent is an online debt collection tool that gives billers, lenders, collection agencies and debt buyers a website for collecting debt that emulates the intelligence and interactions of a human collection agent.

Partnerships and Industry Participation

We have two major types of third-party partners: technology partners, where we work closely with industry leaders who drive key industry trends and mandates, and business partners, where we either embed technology in ACI products or jointly market solutions that include the products of other companies.

Technology partners help us add value to our solutions, stay abreast of current market conditions and industry developments such as standards. Technology partner organizations include Diebold, NCR, Wincor-Nixdorf, VISA, MasterCard and S.W.I.F.T. In addition ACI has membership in or participates in the relevant committees of a number of industry associations, such as the International Organization for Standardization (ISO), Interactive Financial eXchange Forum (IFX), International Payments Framework Association (IPFA), UK Cards Association and the PCI Security Standards Council.

Business partner relationships extend our product portfolio, improve our ability to get our solutions to market and enhance our ability to deliver market-leading solutions. We share revenues with these business partners based on a number of factors related to overall value contribution in the delivery of our joint solution. The agreements with business partners include joint marketing and traditional original equipment manufacturer (OEM) relationships. These agreements generally grant ACI the right to create an integrated solution that we distribute or represent on a worldwide basis and have a term of several years.

We have alliances with our business partners HP, IBM, Microsoft and Oracle, whose industry leading hardware and software are utilized by ACI s products. These partnerships allow us to understand developments in their technology and to utilize their expertise in topics like performance testing.

The following is a list of key business partners:

Access Softech

Accuity, Inc.

Actuate Corp.

Andera, Inc.

Bell ID

Experian

FairCom Corporation

Fiserv, Inc.

FIS/Metavante

Guardian Analytics

HP

IBM

Integrated Research

Intuit, Inc.

iPay Technologies, LLC/Jack Henry & Associates

JasperSoft

Lean Industries

LivePerson Inc.

Microsoft

mShift, Inc.

Oracle USA, Inc.

ProfitStars/Jack Henry & Associates

RSA, The Security Division of EMC Corporation

Spectrum Message Services

Sterci Group

Symantec Corporation

Truaxis (MasterCard)

Wausau Financial Systems

Yodlee Inc.

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Services

We offer our customers a wide range of professional services, including analysis, design, development, implementation, integration and training. We have service professionals within each of our three geographic regions who generally perform the majority of the work associated with installing and integrating our software products, rather than relying on third-party systems integrators. We offer the following types of services for our customers:

Implementation Services. We utilize a standard methodology to deliver customer project implementations across all products lines. Within the process, we provide customers with a variety of services, including on-site solution scoping reviews, project planning, training, site preparation, installation, product configuration, product customization, testing and go-live support, and project management throughout the project lifecycle. Implementation services are typically priced according to the level of technical expertise required.

Product support services. These product-support-funded services are available to customers after a solution has been installed and are based on the relevant product support category. An extensive team of support analysts and an appointed customer manager are available to assist customers.

Technical Services. The majority of our technical services are provided to customers who have licensed one or more of our software products. Services offered include programming and programming support, day-to-day systems operations, network operations, help desk staffing, quality assurance testing, problem resolution, system design, and performance planning and review. Technical services are typically priced according to the level of technical expertise required.

Education Services. ACI courses include both theory and practical sessions to allow students to work though real business scenarios and put their newly learned skills to use. This hands-on approach ensures that the knowledge is retained and the student is more productive upon their return to the workplace. ACI s education courses provide students with knowledge at all levels, to enhance and improve their understanding of ACI products. ACI also provides further, more in-depth technical courses that allow students to use practical labs to enhance what they have learned in the classroom. The ACI trainers ability to understand customers systems means ACI can also provide tailored course materials for individual customers. Depending upon products purchased, training may be conducted at a dedicated education facility at one of ACI s offices, online or at the customer site.

Testing services. ACI s testing services team works within the ACI customer base to establish testing best practices and build a standard testing environment that meets an organization s current needs, and is easily extensible for future requirements. It is important that any testing environment encompasses all aspects of the testing lifecycle (i.e., functional, acceptance, regression and stress testing), as well as allowing ease of use by the appropriate staff. ACI s testing services can provide this environment as either a stand-alone deliverable or as a fully managed service.

Expert Services Consultancy. ACI is committed to providing high-quality consulting services to its customer base. In order to do this, we have assembled a strong team of technicians with many decades of experience, not only with ACI solutions, but also in the payments industry in general. Trusted globally, these consultants are available to provide technical assistance to ACI s customers across the full range of the ACI portfolio. The consultants knowledge and understanding of ACI s customers allow them to define, design and build appropriate technical solutions. This in turn provides an enhanced business offering to customers, ultimately enabling a greater competitive advantage and increased satisfaction.

Facilities Management. We offer facilities management services whereby we operate a customer s electronic payments system for multi-year periods. Pricing and payment terms for facilities management services vary on a case-by-case basis giving consideration to the complexity of the facility or system to be managed, the level and quantity of technical services required, and other factors relevant to the facilities management agreement.

ACI On Demand

We offer a SaaS hosting service whereby we host a customer s system for them as opposed to the customer licensing and installing the system on their own site. We offer several of our solutions in this manner, including our retail and wholesale payment engines, risk management, biller and online banking products. Each customer gets a unique image of the system that can be tailored to meet their needs. The product is generally located on facilities and hardware that we provide. Pricing and payment terms depend on which solutions the customer requires and their transaction volumes. Generally, customers are required to commit to a minimum contract of three to five years.

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Customer Support

We provide our customers with product support that is available 24 hours a day, seven days a week. If requested by a customer, the product support group can remotely access that customer s systems on a real-time basis. This allows the product support group to help diagnose and correct problems to enhance the continuous availability of a customer s business-critical systems. We offer our customers both a general maintenance plan and an extended service option.

General Maintenance. After software installation and project completion, we provide maintenance services to customers for a monthly product support fee. Maintenance services include:

- 24-hour hotline for problem resolution
- Customer account management support
- Vendor-required mandates and updates
- Product documentation
- Hardware operating system compatibility
- User group membership

Enhanced Support Program. Under the extended service option, referred to as the Enhanced Support Program, each customer is assigned an experienced technician to work with its system. The technician typically performs functions such as:

- Install and test software fixes
- Retrofit custom software modifications (CSMs) into new software releases
- Answer questions and resolve problems related to CSM code
- Maintain a detailed CSM history

Monitor customer problems on HELP24 hotline database on a priority basis

Supply on-site support, available upon demand

Perform an annual system review

We provide new releases of our products on a periodic basis. New releases of our products, which often contain product enhancements, are typically provided at no additional fee for customers under maintenance agreements. Agreements with our customers permit us to charge for substantial product enhancements that are not provided as part of the maintenance agreement.

Competition

The electronic payments market is highly competitive and subject to rapid change. Competitive factors affecting the market for our products and services include product features, price, availability of customer support, ease of implementation, product and company reputation, and a commitment to continued investment in research and development.

Our competitors vary by product line, geography and market segment. Generally, our most significant competition comes from in-house information technology departments of existing and potential customers, as well as third-party electronic payments processors (some of whom are our customers). Many of these companies are significantly larger than us and have significantly greater financial, technical and marketing resources. Key competitors by product domain include the following:

Online Banking and Cash Management, Branch, Trade Finance and Community Financial Services

Principal competitors for the Online Banking and Cash Management and Branch product set are Clear2Pay NV/SA (Clear2Pay), Digital Insight, Bottomline Technologies, ARGO, Fidelity National Information Services, Inc. and Fundtech Ltd, as well as payment processing companies First Data Corporation, Fidelity National Information Services, Inc, and Fiserv, Inc. Principal competitors for the Trade product set include China Systems, CSI, Misys and CGI.

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Retail Banking Payments

The third-party software competitors for the products in the retail banking payments are Clear2Pay, Computer Sciences Corporation, Fidelity National Information Services, Inc., Pegasystems Inc., OpenWay Group, and Total System Services, Inc. (TSYS), as well as small, regionally-focused companies such as Alaric Technology Inc., BPC Banking Technologies, PayEx Solutions AS, Financial Software and Systems, CR2, Lusis Payments Ltd., and Opus Software Solutions Private Limited. Primary electronic payment processing competitors in this area include global entities such as Atos Origin S.A., Fidelity National Information Services, Inc., First Data Corporation, SiNSYS, TSYS, VISA and MasterCard, as well as regional or country-specific processors.

Wholesale Banking Payments

In the wholesale banking payments the principal competitors are Bankserv, Clear2Pay, Dovetail Software, Fundtech Ltd, IBM, Logica Plc and Tieto Corporation.

Merchant Retail

Competitors in the retail sector come from both third party software and service providers as well as service organizations run by major banks. Third party software and service competitors include AJB Software Design, Inc., Retalix, Heartland Payment Systems, Inc., Servebase Computers Ltd, Tender Retail Inc., and VeriFone Systems, Inc. Primary competition in this space is large third-party processors that offer complete solutions to the retailer.

Payments Fraud Management

Principal competitors for the payments fraud detection products are Actimize, Inc., Fair Isaac Corporation, BAE Systems Detica, ReD, Fidelity National Information Services, Inc., Fiserv, Inc., Memento Inc., Norkom Technologies, and SAS Institute, Inc., as well as dozens of smaller companies focused on niches of this segment such as anti-money laundering.

Payments Infrastructure

The principal competitors for the tools and infrastructure products are CA Technologies, HP, IBM and Oracle USA, Inc., as well as dozens of small, niche-focused competitors.

As markets continue to evolve in the electronic payments, risk management and smartcard sectors, we may encounter new competitors for our products and services. As electronic payment transaction volumes increase and banks face price competition, third-party processors may become stronger competition in our efforts to market our solutions to smaller financial institutions. In the larger financial institution market, we believe that third-party processors may be less competitive since large institutions attempt to differentiate their electronic payment product offerings from their competition, and are more likely to develop or continue to support their own internally-developed solutions or use third-party software packages such as those we offer.

Bill Payment

The principal competitors for bill payment are Fiserv, Inc., Fidelity National Information Services, Inc., Jack Henry, Western Union, TouchNet, Kubra, WorldPay, Forte, Point & Pay, NelNet, Higher One, Paymentus, Aliaswire and InvoiceCloud as well as smaller vertical specific providers.

Research and Development

Our product development efforts focus on new products and improved versions of existing products. We facilitate user group meetings to help us determine our product strategy, development plans and aspects of customer support. The user groups are generally organized geographically or by product lines. We believe that the timely development of new applications and enhancements is essential to maintain our competitive position in the market.

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In developing new products, we work closely with our customers and industry leaders to determine requirements. We work with device manufacturers, such as Diebold, NCR and Wincor-Nixdorf, to ensure compatibility with the latest ATM technology. We work with network vendors, such as MasterCard, VISA and S.W.I.F.T, to ensure compliance with new regulations or processing mandates. We work with computer hardware and software manufacturers, such as HP, IBM, Microsoft Corporation, Oracle and Stratus Technologies, Inc. to ensure compatibility with new operating system releases and generations of hardware. Customers often provide additional information on requirements and serve as beta-test partners.

Our total research and development expenses during the years ended December 31, 2013, 2012 and 2011 were $142.6 million, $133.8 million, and $90.2 million, or 16.5%, 20.1%, and 19.4% of total revenues, respectively.

Customers

We provide software products and services to customers in a range of industries worldwide, with financial institutions, retailers and e-payment processors comprising our largest industry segments. As of December 31, 2013, we serve nearly 2,600 customers, including 21 of the top 25 banks worldwide, as measured by asset size, and 250 of the leading retailers globally, as measured by revenue. As of December 31, 2013, we had 2,596 customers in 92 countries on six continents. Of this total, 2,054 are in the Americas reportable segment, 370 are in the EMEA reportable segment and 172 are in the Asia/Pacific reportable segment. No single customer accounted for more than 10% of our consolidated revenues for the years ended December 31, 2013, 2012 and 2011. No customer accounted for more than 10% of our accounts receivable balance as of December 31, 2013 and 2012.

Selling and Marketing

Our primary method of distribution is direct sales by employees assigned to specific regions or specific products. In addition, we use distributors and sales agents to supplement our direct sales force in countries where business practices or customs make it appropriate, or where it is more economical to do so. We generate a majority of our sales leads through existing relationships with vendors, direct marketing programs, customers and prospects, or through referrals.

Current international distributors, resellers and sales agents for us during the year ended December 31, 2013 included:

ASI International (Colombia/Venezuela/Caribbean)

Channel Solutions Inc. (Philippines)

Codix S.A. (Greece,Cyprus, Romania, Bulgaria)

DataOne Asia Co (Thailand)

Diebold (United States)

EFT Corp. (Sub-Saharan Africa)

Fiserv (United States)

Interswitch Ltd. (Sub-Saharan Africa)

JDA Software Group (United States)

Korea Computer Inc (Korea)

MII (Indonesia)

PCMS Group (U.K.)

P.T. Abhimata Persada (Indonesia)

Payment Technologies (Russia/CIS)

Stream IT Consulting Ltd. (Thailand)

Starmount (United States)

Syscom Computer (Shenzhen) (China)

Syscom Computer Engineering (Taiwan)

System Builder (Middle East)

Tomax Corp. (United States)

Transaction Payment Solutions (Sub-Saharan Africa)

We distribute the products of other vendors where they complement our existing product lines. We are typically responsible for the sales and marketing of the vendor s products, and agreements with these vendors generally provide for revenue sharing based on relative responsibilities.

In addition to our principal sales offices in Omaha, Norcross, and Waltham, we also have sales offices located outside the United States in Athens, Bahrain, Bangkok, Beijing, Bogota, Brussels, Buenos Aires, Cape Town, Dubai, Gouda, Johannesburg, Kuala Lumpur, Madrid, Manila, Melbourne, Mexico City, Milan, Montevideo, Moscow, Mumbai, Munich, Naples, Paris, Riyadh, Sao Paulo, Seoul, Shanghai, Singapore, Sulzbach, Sydney, Tokyo, Toronto, and Watford.

Proprietary Rights and Licenses

We rely on a combination of trade secret and copyright laws, license agreements, contractual provisions and confidentiality agreements to protect our proprietary rights. We distribute our software products under software license agreements that typically grant customers nonexclusive licenses to use our products. Use of our software products is usually restricted to designated computers, specified locations and/or specified capacity, and is subject to terms and conditions prohibiting unauthorized reproduction or transfer of our software products. We also seek to protect the source code of our software as a trade secret and as a copyrighted work. Despite these precautions, there can be no assurance that misappropriation of our software products and technology will not occur.

In addition to our own products, we distribute, or act as a sales agent for, software developed by third parties. However, we typically are not involved in the development process used by these third parties. Our rights to those third-party products and the associated intellectual property rights are limited by the terms of the contractual agreement between us and the respective third-party.

Although we believe that our owned and licensed intellectual property rights do not infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not assert infringement claims against us. Further, there can be no assurance that intellectual property protection will be available for our products in all foreign countries.

Like many companies in the electronic commerce and other high-tech industries, third parties have in the past and may in the future assert claims or initiate litigation related to patent, copyright, trademark or other intellectual property rights to business processes, technologies and related standards that are relevant to us and our customers. These assertions have increased over time as a result of the general increase in patent claims assertions, particularly in the United States. Third parties may also claim that the third-party s intellectual property rights are being infringed by our customers use of a business process method which utilizes products in conjunction with other products, which could result in indemnification claims against us by our customers. Any claim against us, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays, require us to enter into royalty or licensing agreements or pay amounts in settlement, or require us to develop alternative non-infringing technology. We could also be required to defend or indemnify our customers against such claims. A successful claim by a third-party of intellectual property infringement by us or one of our customers could compel us to enter into costly royalty or license agreements, pay significant damages or even stop selling certain products and incur additional costs to develop alternative non-infringing technology.

Segment Information and Foreign Operations

We derive a significant portion of our revenues from foreign operations. For detail of revenue by geographic region see Note 10, *Segment Information*, in the Notes to Consolidated Financial Statements.

Employees

As of December 31, 2013, we had a total of approximately 4,329 employees of whom 2,484 were in the Americas reportable segment, 923 were in the EMEA reportable segment and 922 were in the Asia/Pacific reportable segment.

None of our employees are subject to a collective bargaining agreement. We believe that relations with our employees are good.

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act), are available free of charge on our website at www.aciworldwide.com as soon as reasonably practicable after we file such information electronically with the SEC. The information found on our website is not part of this or any other report we file with or furnish to the SEC. The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, Room 1580, NW, Washington DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

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Executive Officers of the Registrant

As of February 28, 2014, our executive officers, their ages and their positions were as follows.

Name	Age	Position
Philip G. Heasley	64	President, Chief Executive Officer and Director
Scott W. Behrens	42	Senior Executive Vice President, Chief Financial Officer
Craig A. Maki	47	Executive Vice President, Treasurer and Chief Corporate Development Officer
Dennis P. Byrnes	50	Executive Vice President, Chief Administrative Officer, General Counsel and Secretary
David N. Morem	56	Executive Vice President, Chief Risk Officer
Charles H. Linberg	56	Vice President, Chief Technology Officer (retired December 31, 2013)

Mr. Heasley has been a director and our President and Chief Executive Officer since March 2005. Mr. Heasley has a comprehensive background in payment systems and financial services. From October 2003 to March 2005, Mr. Heasley served as Chairman and Chief Executive Officer of PayPower LLC, an acquisition and consulting firm specializing in financial services and payment services. Mr. Heasley served as Chairman and Chief Executive Officer of First USA Bank from October 2000 to November 2003. Prior to joining First USA Bank, from 1987 until 2000, Mr. Heasley served in various capacities for U.S. Bancorp, including Executive Vice President, and President and Chief Operating Officer. Mr. Heasley also serves on the National Infrastructure Advisory Council.

Mr. Behrens serves as Senior Executive Vice President and Chief Financial Officer. Mr. Behrens joined ACI in June 2007 as our Corporate Controller and was appointed as Chief Accounting Officer in October 2007. Mr. Behrens was appointed Chief Financial Officer in December 2009. Mr. Behrens ceased serving as our Corporate Controller in December 2010. Mr. Behrens was appointed as Executive Vice President in March 2011 and promoted to Senior Executive Vice President in December of 2013. Prior to joining ACI, Mr. Behrens served as Senior Vice President, Corporate Controller and Chief Accounting Officer at SITEL Corporation from January 2005 to June 2007. He also served as Vice President of Financial Reporting at SITEL Corporation from April 2003 to January 2005. From 1993 to 2003, Mr. Behrens was with Deloitte & Touche, LLP, including two years as a Senior Audit Manager. Mr. Behrens holds a Bachelor of Science (Honors) from the University of Nebraska Lincoln.

Mr. Maki serves as Executive Vice President, Treasurer and Chief Development Officer. Mr. Maki joined the Company in June 2006. Mr. Maki was appointed Treasurer in January 2008. Prior to joining the Company, Mr. Maki served as Senior Vice President for Stephens, Inc. from 1999 through 2006. From 1994 to 1999, Mr. Maki was a Director in the Corporate Finance group at Arthur Andersen and from 1991 to 1994, he was a Senior Consultant at Andersen Consulting. Mr. Maki graduated from the University of Wyoming and received his Master of Business Administration from the University of Denver.

Mr. Byrnes serves as Executive Vice President, Chief Administrative Officer, General Counsel and Secretary. Mr. Byrnes joined the Company in June 2003. Prior to that Mr. Byrnes served as an attorney in Bank One Corporation s technology group from 2002 to 2003. From 1996 to 2002 Mr. Byrnes was an executive officer at Sterling Commerce, Inc., an electronic commerce software and services company, serving as that company s general counsel from 2000. From 1991 to 1996 Mr. Byrnes was an attorney with Baker Hostetler, a national law firm with over 600 attorneys. Mr. Byrnes holds a JD (cum laude) from The Ohio State University College of Law, a Master of Business Administration from Xavier University and a Bachelor of Science in engineering (magna cum laude) from Case Western Reserve University.

Mr. Morem joined the Company in June 2005 and serves as Executive Vice President and Chief Risk Officer. During his tenure with the Company, Mr. Morem has held several Executive Vice President roles including Chief Administrative Officer. Prior to joining ACI, Mr. Morem held executive positions at GE Home Loans, Bank One Card Services and U.S. Bank. Mr. Morem brings more than 25 years of experience in process management, finance, credit operations, credit policy and change management. Mr. Morem holds a Bachelor of Arts degree from the University of Minnesota and a Master of Business Administration from the University of St. Thomas.

Mr. Linberg served as Vice President and Chief Technology Officer. In this capacity he was responsible for the architectural direction of ACI products including the formation of platform, middleware and integration strategies. Mr. Linberg joined the Company in 1988 and has served in various technical management roles including Vice President of Payment Systems, Vice President of Architecture and Technology, Vice President of BASE24 Development and Vice President of Network Systems. Prior to joining ACI, Mr. Linberg was Vice President of Research and Development at XRT, Inc., where he led the development of XRT s proprietary fault-tolerant LAN/WAN communications middleware, relational database and 4GL products. Mr. Linberg holds a Bachelor of Science in Business Administration from the University of Delaware. Mr. Linberg retired from the Company on December 31, 2013.

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ITEM 1A. RISK FACTORS

Factors That May Affect Our Future Results or the Market Price of Our Common Stock

We operate in a rapidly changing technological and economic environment that presents numerous risks. Many of these risks are beyond our control and are driven by factors that often cannot be predicted. The following discussion highlights some of these risks.

The markets in which we compete are rapidly changing and highly competitive, and we may not be able to compete effectively.

The markets in which we compete are characterized by rapid change, evolving technologies and industry standards and intense competition. There is no assurance that we will be able to maintain our current market share or customer base. We face intense competition in our businesses and we expect competition to remain intense in the future. We have many competitors that are significantly larger than us and have significantly greater financial, technical and marketing resources, have well-established relationships with our current or potential customers, advertise aggressively or beat us to the market with new products and services. In addition, we expect that the markets in which we compete will continue to attract new competitors and new technologies. Increased competition in our markets could lead to price reductions, reduced profits, or loss of market share. The current global economic conditions could also result in increased price competition for our products and services.

To compete successfully, we need to maintain a successful research and development effort. If we fail to enhance our current products and develop new products in response to changes in technology and industry standards, bring product enhancements or new product developments to market quickly enough, or accurately predict future changes in our customers needs and our competitors develop new technologies or products, our products could become less competitive or obsolete.

One of our most strategic products, BASE24-eps, could prove to be unsuccessful in the market.

Our BASE24-eps product is strategic for us, in that it is designated to help us win new accounts, replace legacy payments systems on multiple hardware platforms and help us transition our existing customers to a new, open-systems product architecture. Our business, financial condition, cash flows and/or results of operations could be materially adversely affected if we are unable to generate adequate sales of BASE24-eps or if we are unable to successfully deploy BASE24-eps in production environments.

Our future profitability depends on demand for our products; lower demand in the future could adversely affect our business.

Our revenue and profitability depend on the overall demand for our products and services. Historically, a majority of our total revenues resulted from licensing our BASE24 product line and providing related services and maintenance. Any reduction in demand for, or increase in competition with respect to, the BASE24 product line could have a material adverse effect on our financial condition, cash flows and/or results of operations.

We have historically derived a substantial portion of our revenues from licensing of software products that operate on HP NonStop servers. Any reduction in demand for HP NonStop servers, or any change in strategy by HP related to support of its NonStop servers, could have a material adverse effect on our financial condition, cash flows and/or results of operations.

Our current credit facility contains restrictions and other financial covenants that limit our flexibility in operating our business.

Our credit facility contains customary affirmative and negative covenants for credit facilities of this type that limit our ability to engage in specified types of transactions. These covenants limit our ability, and the ability of our subsidiaries, to, among other things: pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments; make certain investments; sell certain assets; create liens; incur additional indebtedness or issue certain preferred shares; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and enter into certain transactions with our affiliates. Our credit facility also requires us to meet certain quarterly financial tests, including a maximum leverage ratio and a minimum interest coverage ratio. Our credit facility includes customary events of default, including, but not limited to, failure to pay principal or interest, breach of covenants or representations and warranties, cross-default to other indebtedness, judgment default and insolvency. If an event of default occurs under the credit facility, the lenders will be entitled to take various actions, including, but not limited to, demanding payment for all amounts outstanding. If adverse global economic conditions persist or worsen, we could experience decreased revenues from our operations attributable to reduced demand for our products and services and as a result, we could fail to satisfy the financial and other restrictive covenants to which we are subject under our existing credit facility, resulting in an event of default. If we are unable to cure the default or obtain a waiver, we will not be able to access our credit facility and there can be no assurance that we would be able to obtain alternative financing.

Consolidations and failures in the financial services industry may adversely impact the number of customers and our revenues in the future.

Mergers, acquisitions and personnel changes at key financial services organizations have the potential to adversely affect our business, financial condition, cash flows, and results of operations. Our business is concentrated in the financial services industry, making us susceptible to consolidation in, or contraction of the number of participating institutions within that industry. Consolidation activity among financial institutions has increased in recent years and the current financial conditions have resulted in even further consolidation and contraction as financial institutions have failed or have been acquired by or merged with other financial institutions. There are several potential negative effects of increased consolidation activity. Continuing consolidation and failure of financial institutions could cause us to lose existing and potential customers for our products and services. For instance, 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 in turn decided to forego future use of our products, our revenues would decline.

Potential customers may be reluctant to switch to a new vendor, which may adversely affect our growth, both in the U.S. and internationally.

For banks, financial institutions and other potential customers of our products, switching from one vendor of core financial services software (or from an internally-developed legacy system) to a new vendor is a significant endeavor. Many potential customers believe switching vendors involves too many potential disadvantages such as disruption of business operations, loss of accustomed functionality, and increased costs (including conversion and transition costs). As a result, potential customers may resist change. We seek to overcome this resistance through value enhancing strategies such as a defined conversion/migration process, continued investment in the enhanced functionality of our software and system integration expertise. However, there can be no assurance that our strategies for overcoming potential customers reluctance to change vendors will be successful, and this resistance may adversely affect our growth, both in the U.S. and internationally.

Our announcement of the maturity of certain legacy retail payment products may result in decreased customer investment in our products and our strategy to migrate customers to our next generation products may be unsuccessful which may adversely impact our business and financial condition, including the timing of revenue recognition associated with the legacy retail payment products.

Our announcement related to the maturity of certain retail payment engines may result in customer decisions not to purchase or otherwise invest in these engines, related products and/or services. Alternatively, the maturity of these products may result in delayed customer purchase decisions or the renegotiation of contract terms based upon scheduled maturity activities. In addition, our strategy related to migrating customers to our next generation products may be unsuccessful. Reduced investments in our products, deferral or delay in purchase commitments by our customers or our failure to successfully manage our migration strategy could have a material adverse effect on our business, liquidity and financial condition.

Furthermore, as a result of the maturity announcement, certain up-front fees associated with the legacy payment engines, including initial license, may become subject to ratable revenue recognition over time rather than up front at the time of contract. This will result in a delay in the recognition of these up-front fees. Additionally, customers may negotiate terms associated with their migration to BASE24-eps which may cause the recognition of revenue associated with the customer s legacy payment engine to be deferred pending the completion of the migration.

Management s backlog estimate may not be accurate and may not generate the predicted revenues.

Estimates of future financial results are inherently unreliable. Our backlog estimates require substantial judgment and are based on a number of assumptions, including management s current assessment of customer and third party contracts that exist as of the date the estimates are made, as well as revenues from assumed contract renewals, to the extent that we believe that recognition of the related revenue will occur within the corresponding backlog period. A number of factors could result in actual revenues being less than the amounts reflected in backlog. Our customers or third party partners 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 within their industries or geographic locations, or we may experience delays in the development or delivery of products or services specified in customer contracts. Actual renewal rates and amounts may differ from historical experiences used to estimate backlog amounts. 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 contracts included in backlog will actually generate the specified revenues or that the actual revenues will be generated within a 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 generally accepted accounting principles (GAAP) financial measure.

Failure to obtain renewals of customer contracts or obtain such renewals on favorable terms could adversely affect our results of operations and financial condition.

Failure to achieve favorable renewals of customer contracts could negatively impact our business. Our contracts with our customers generally run for a period of five years. At the end of the contract term, customers have the opportunity to renegotiate their contracts with us and to consider whether to engage one of our competitors to provide products and services. Failure to achieve high renewal rates on commercially favorable terms could adversely affect our results of operations and financial condition.

The delay or cancellation of a customer project or inaccurate project completion estimates may adversely affect our operating results and financial performance.

Any unanticipated delays in a customer project, changes in customer requirements or priorities during the project implementation period, or a customer s decision to cancel a project, may adversely impact our operating results and financial performance. In addition, during the project implementation period, we perform ongoing estimates of the progress being made on complex and difficult projects and documenting this progress is subject to potential inaccuracies. Changes in project completion estimates are heavily dependent on the accuracy of our initial project completion estimates and our ability to evaluate project profits and losses. Any inaccuracies or changes in estimates resulting from changes in customer requirements, delays or inaccurate initial project completion estimates may result in increased project costs and adversely impact our operating results and financial performance.

Global economic conditions could reduce the demand for our products and services or otherwise adversely impact our cash flows, operating results and financial condition.

For the foreseeable future, we expect to derive most of our revenue from products and services we provide to the banking and financial services industries. The global electronic payments industry and the banking and financial services industries depend heavily upon the overall levels of consumer, business and government spending. The current economic conditions and the potential for increased or continuing disruptions in these industries as well as the general software sector could result in a decrease in consumers use of banking services and financial service providers resulting in significant decreases in the demand for our products and services which could adversely affect our business and operating results. A lessening demand in either the overall economy, the banking and financial services industry or the software sector could also result in the implementation by banks and related financial service providers of cost reduction measures or reduced capital spending resulting in longer sales cycles, deferral or delay of purchase commitments for our products and increased price competition which could lead to a material decrease in our future revenues and earnings.

The volatility and disruption of the capital and credit markets and adverse changes in the global economy may negatively impact our liquidity and our ability to access financing.

While we intend to finance our operations and growth of our business with existing cash and cash flow from operations, if adverse global economic conditions persist or worsen, we could experience a decrease in cash from operations attributable to reduced demand for our products and services and as a result, we may need to borrow additional amounts under our existing credit facility or we may require additional financing for our continued operation and growth. However, due to the existing uncertainty in the capital and credit markets and the impact of the current economic conditions on our operating results, cash flows and financial conditions, the amount of available unused borrowings under our existing credit facility may be insufficient to meet our needs and/or our access to capital outside of our existing credit facility may not be available on terms acceptable to us or at all. Additionally, if one or more of the financial institutions in our syndicate were to default on its obligation to fund its commitment, the portion of the committed facility provided by such defaulting financial institution would not be available to us. There can be no assurance that alternative financing on acceptable terms would be available to replace any defaulted commitments.

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Our existing levels of debt and debt service requirements may adversely affect our financial condition or operational flexibility and prevent us from fulfilling our obligations under our outstanding indebtedness.

Our level of debt could have adverse consequences for our business, financial condition, operating results and operational flexibility, including the following: (i) the debt level may cause us to have difficulty borrowing money in the future for working capital, capital expenditures, acquisitions or other purposes; (ii) our debt level may limit operational flexibility and our ability to pursue business opportunities and implement certain business strategies; (iii) we use a large portion of our operating cash flow to pay principal and interest on our credit facility, which reduces the amount of money available to finance operations, acquisitions and other business activities; (iv) we have a higher level of debt than some of our competitors or potential competitors, which may cause a competitive disadvantage and may reduce flexibility in responding to changing business and economic conditions, including increased competition and vulnerability to general adverse economic and industry conditions; (v) our debt has a variable rate of interest, which exposes us to the risk of increased interest rates; (vi) there are significant maturities on our debt that we may not be able to fulfill or that may be refinanced at higher rates; and (vii) if we fail to satisfy our obligations under our outstanding debt or fail to comply with the financial or other restrictive covenants required under our credit facility, an event of default could result that would cause all of our debt to become due and payable and could permit the lenders under our credit facility to foreclose on the assets securing such debt.

Our balance sheet includes significant amounts of goodwill and intangible assets. The impairment of a significant portion of these assets could negatively affect our financial results.

Our balance sheet includes goodwill and intangible assets that represent a significant portion of our total assets at December 31, 2013. On at least an annual basis, we assess whether there have been impairments in the carrying value of goodwill and intangible assets. If the carrying value of the asset is determined to be impaired, then it is written down to fair value by a charge to operating earnings. An impairment of a significant portion of goodwill or intangible assets could materially negatively affect our results of operations.

We may become involved in litigation that could materially adversely affect our business financial condition, cash flows and/or results of operations.

From time to time, we are involved in litigation relating to claims arising out of our operations. Any claims, with or without merit, could be time-consuming and result in costly litigation. Failure to successfully defend against these claims could result in a material adverse effect on our business, financial condition, results of operations and/or cash flows.

If we engage in acquisitions, strategic partnerships or significant investments in new business, we will be exposed to risks which could materially adversely affect our business.

As part of our business strategy, we anticipate that we may 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, or strategic partnerships with, other companies. Any acquisition, investment or partnership, including our recently completed acquisitions of OPAY, PTESA and ORCC, are subject to a number of risks. Such risks include the diversion of management time and resources, disruption of our ongoing business, potential overpayment for the acquired company or assets, dilution to existing stockholders if our common stock is issued in consideration for an acquisition or investment, incurring or assuming indebtedness or other liabilities in connection with an acquisition which may increase our interest expense and leverage significantly, lack of familiarity with new markets, and difficulties in supporting new product lines.

Further, even if we successfully complete acquisitions, we may encounter issues not discovered during our due diligence process, including product or service quality issues, intellectual property issues and legal contingencies, the internal control environment of the acquired entity may not be consistent with our standards and may require significant time and resources to improve and we may impair relationships with *e*mployees and customers as a result of migrating a business or product line to a new owner. We will also face challenges in integrating any acquired business. These challenges include eliminating redundant operations, facilities and systems, coordinating management and personnel, retaining key employees, customers and business partners, managing different corporate cultures, and achieving cost reductions and cross-selling opportunities. There can be no assurance that we will be able to fully integrate all aspects of acquired businesses successfully, realize synergies expected to result from the acquisition, advance our business strategy or fully realize the potential benefits of bringing the businesses together, and the process of integrating these acquisitions may further disrupt our business and divert our resources.

Our failure to successfully manage acquisitions or investments, or successfully integrate acquisitions could have a material adverse effect on our business, financial condition, cash flows and/or results of operations. Correspondingly, our expectations related to the benefits related to our recent acquisitions, prior acquisitions or any other future acquisition or investment could be inaccurate.

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We may experience difficulties integrating ORCC or OPAY, which could cause us to fail to realize the anticipated benefits of the acquisitions.

Achieving the anticipated benefits of our acquisitions of ORCC and OPAY will depend in part upon whether we are able to integrate the businesses of the companies in an effective and efficient manner. We may not be able to accomplish this integration process smoothly or successfully. The integration of certain operations will take time and will require the dedication of significant management resources, which may temporarily distract management s attention from our routine business.

Any delay or inability of management to successfully integrate the operations of ORCC or OPAY could compromise our potential to achieve the anticipated long-term strategic benefits of the acquisitions and could have a material adverse effect on the business, financial condition, cash flows and results of operations after the acquisitions.

Our software products may contain undetected errors or other defects, which could damage our reputation with customers, decrease profitability, and expose us to liability.

Our software products are complex. Software typically contains bugs or errors that can unexpectedly interfere with the operation of the software products. Our software products may contain undetected errors or flaws when first introduced or as new versions are released. These undetected errors may result in loss of, or delay in, market acceptance of our products and a corresponding loss of sales or revenues. Customers depend upon our products for mission-critical applications, and these errors may hurt our reputation with customers. In addition, software product errors or failures could subject us to product liability, as well as performance and warranty claims, which could materially adversely affect our business, financial condition, cash flows and/or results of operations.

If our products and services fail to comply with legislation, government regulations and industry standards to which our customers are subject, it could result in a loss of customers and decreased revenue.

Legislation, governmental regulation and industry standards affect how our business is conducted, and in some cases, could subject us to the possibility of future lawsuits arising from our products and services. Globally, legislation, governmental regulation and industry standards may directly or indirectly impact our current and prospective customers activities, as well as their expectations and needs in relation to our products and services. For example, our products are affected by VISA and MasterCard electronic payment standards that are generally updated twice annually. In addition, action by government and regulatory authorities such as the Dodd-Frank Wall Street Reform and the Consumer Protection Act relating to financial regulatory reform, as well as legislation and regulation related to credit availability, data usage, privacy, or other related regulatory developments could have an adverse effect on our customers and therefore could have a material adverse effect on our business, financial condition, cash flows and results of operations.

If we fail to comply with the complex regulations applicable to our payments business, we could be subject to liability.

OPAY is licensed as a money transmitter in those states where such licensure is required. These licenses require us to demonstrate and maintain certain levels of net worth and liquidity and also require us to file periodic reports. In addition, our payment business is generally subject to federal regulation in the United States, including anti-money laundering regulations and certain restrictions on transactions to or from certain individuals or entities. The complexity of these regulations will continue to increase our cost of doing business. Any violations of law may also result in civil or criminal penalties against us and our officers or the prohibition against us providing money transmitter services in particular jurisdictions.

If we fail to comply with privacy regulations imposed on providers of services to financial institutions, our business could be harmed.

As a provider of services to financial institutions, we may be bound by the same limitations on disclosure of the information we receive from our customers as apply to the financial institutions themselves. If we are subject to these limitations and we fail to comply with applicable regulations, we could be exposed to suits for breach of contract or to governmental proceedings, our customer relationships and reputation could be harmed, and we could be inhibited in our ability to obtain new customers. In addition, if more restrictive privacy laws or rules are adopted in the future on the federal or state level, or, with respect to our international operations, by authorities in foreign jurisdictions on the national, provincial, state, or other level, that could have an adverse impact on our business.

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If our security measures are breached or become infected with a computer virus, or if our services are subject to attacks that degrade or deny the ability of users to access our products or services, our business will be harmed by disrupting delivery of services and damaging our reputation.

As part of our business, we electronically receive, process, store, and transmit sensitive business information of our customers. Unauthorized access to our computer systems or databases could result in the theft or publication of confidential information or the deletion or modification of records or could otherwise cause interruptions in our operations. These concerns about security are increased when we transmit information over the Internet. Security breaches in connection with the delivery of our products and services, including products and services utilizing the Internet, or well-publicized security breaches, and the trend toward broad consumer and general public notification of such incidents, could significantly harm our business, financial condition, cash flows and/or results of operations. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology protecting our networks and confidential information. Computer viruses have also been distributed and have rapidly spread over the Internet. Computer viruses could infiltrate our systems, disrupting our delivery of services and making our applications unavailable. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and terminate their agreements with us, and could inhibit our ability to attract new customers.

We may be unable to protect our intellectual property and technology and may be subject to increasing litigation over our intellectual property rights.

To protect our proprietary rights in our intellectual property, we rely on a combination of contractual provisions, including customer licenses that restrict use of our products, confidentiality agreements and procedures, and trade secret and copyright laws. Despite such efforts, we may not be able to adequately protect our proprietary rights, or our competitors may independently develop similar technology, duplicate products, or design around any rights we believe to be proprietary. This may be particularly true in countries other than the United States because some foreign laws do not protect proprietary rights to the same extent as certain laws of the United States. Any failure or inability to protect our proprietary rights could materially adversely affect our business.

There has been a substantial amount of litigation in the software industry regarding intellectual property rights. Third parties have in the past, and may in the future, assert claims or initiate litigation related to exclusive patent, copyright, trademark or other intellectual property rights to business processes, technologies and related standards that are relevant to us and our customers. These assertions have increased over time as a result of the general increase in patent claims assertions, particularly in the United States. Because of the existence of a large number of patents in the electronic commerce field, the secrecy of some pending patents and the rapid issuance of new patents, it is not economical or even possible to determine in advance whether a product or any of its components infringes or will infringe on the patent rights of others. Any claim against us, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays, require us to enter into royalty or licensing agreements or pay amounts in settlement, or require us to develop alternative non-infringing technology.

We anticipate that software product developers and providers of electronic commerce solutions could increasingly be subject to infringement claims, and third parties may claim that our present and future products infringe upon their intellectual property rights. Third parties may also claim, and we are aware that at least two parties have claimed on several occasions, that our customers use of a business process method which utilizes our products in conjunction with other products infringe on the third-party s intellectual property rights. These third-party claims could lead to indemnification claims against us by our customers. Claims against our customers related to our products, whether or not meritorious, could harm our reputation and reduce demand for our products. Where indemnification claims are made by customers, resistance even to unmeritorious claims could damage the customer relationship. A successful claim by a third-party of intellectual property infringement by us or one of our customers could compel us to enter into costly royalty or license agreements, pay significant damages, or stop selling certain products and incur additional costs to develop alternative non-infringing technology. Royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all, which could adversely affect our business.

Our exposure to risks associated with the use of intellectual property may be increased for third-party products distributed by us or as a result of acquisitions since we have a lower level of visibility, if any, into the development process with respect to such third-party products and acquired technology or the care taken to safeguard against infringement risks.

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

When we process an automated clearing house or automated teller machine network payment transaction for certain clients, we occasionally transfer funds from our settlement account to the intended destination account before we receive funds from a client s source account. The vast majority of these occurrences are resolved quickly through normal processes. However, if they are not resolved and we are then unable to reverse the transaction that sent funds to the intended destination, a shortfall in our settlement account will be created. Although we have legal recourse against our clients for the amount of the shortfall, timing of recovery may be delayed by litigation or the amount of any recovery may be less than the shortfall. In either case, we would have to fund the shortfall in our settlement account from our corporate funds.

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Our revenue and earnings are highly cyclical, our quarterly results fluctuate significantly and we have revenue-generating transactions concentrated in the final weeks of a quarter which may prevent accurate forecasting of our financial results and cause our stock price to decline.

Our revenue and earnings are highly cyclical causing significant quarterly fluctuations in our financial results. Revenue and operating results are usually strongest during the third and fourth fiscal quarters ending September 30 and December 31 primarily due to the sales and budgetary cycles of our customers. We experience lower revenues, and possible operating losses, in the first and second quarters ending March 31 and June 30. Our financial results may also fluctuate from quarter to quarter and year to year due to a variety of factors, including changes in product sales mix that affect average selling prices; and the timing of customer renewals (any of which may impact the pattern of revenue recognition).

In addition, large portions of our customer contracts are consummated in the final weeks of each quarter. Before these contracts are consummated, we create and rely on forecasted revenues for planning, modeling and earnings guidance. Forecasts, however, are only estimates and actual results may vary for a particular quarter or longer periods of time. Consequently, significant discrepancies between actual and forecasted results could limit our ability to plan, budget or provide accurate guidance, which could adversely affect our stock price. Any publicly-stated revenue or earnings projections are subject to this risk.

If we experience business interruptions or failure of our information technology and communication systems, the availability of our products and services could be interrupted which could adversely affect our reputation, business and financial condition.

Our ability to provide reliable service in a number of our businesses depends on the efficient and uninterrupted operation of our data centers, information technology and communication systems, and those of our external service providers. As we continue to grow our On Demand business, our dependency on the continuing operation and availability of these systems increases. Our systems and data centers, and those of our external service providers, could be exposed to damage or interruption from fire, natural disasters, power loss, telecommunications failure, unauthorized entry and computer viruses. Although we have taken steps to prevent system failures and we have installed back-up systems and procedures to prevent or reduce disruption, such steps may not be sufficient to prevent an interruption of services and our disaster recovery planning may not account for all eventualities. Further, our property and business interruption insurance may not be adequate to compensate us for all losses or failures that may occur.

An operational failure or outage in any of these systems, or damage to or destruction of these systems, which causes disruptions in our services, could result in loss of customers, damage to customer relationships, reduced revenues and profits, refunds of customer charges and damage to our brand and reputation and may require us to incur substantial additional expense to repair or replace damaged equipment and recover data loss caused by the interruption. Any one or more of the foregoing occurrences could have a material adverse effect on our reputation, business, financial condition, cash flows and results of operations.

We are engaged in offshore software development activities, which may not be successful and which may put our intellectual property at risk.

As part of our globalization strategy and to optimize available research and development resources, we utilize our Irish subsidiary to serve as the focal point for certain international product development and commercialization efforts. This subsidiary oversees remote software development operations in Romania and elsewhere, as well as manages certain of our intellectual property rights. In additional we manage certain offshore development activities in

India. While our experience to date with our offshore development centers has been positive, there is no assurance that this will continue. Specifically, there are a number of risks associated with this activity, including but not limited to the following:

- communications and information flow may be less efficient and accurate as a consequence of the time, distance and language differences between our primary development organization and the foreign based activities, resulting in delays in development or errors in the software developed;

- in addition to the risk of misappropriation of intellectual property from departing personnel, there is a general risk of the potential for misappropriation of our intellectual property that might not be readily discoverable;

- the quality of the development efforts undertaken offshore may not meet our requirements because of language, cultural and experiential differences, resulting in potential product errors and/or delays;

- potential disruption from the involvement of the United States in political and military conflicts around the world; and

- currency exchange rates could fluctuate and adversely impact the cost advantages intended from maintaining these facilities.

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There are a number of risks associated with our international operations that could have a material impact on our operations and financial condition.

We derive a significant portion of our revenues from international operations and anticipate continuing to do so. As a result, we are subject to risks of conducting international operations. One of the principal risks associated with international operations is potentially adverse movements of foreign currency exchange rates. Our exposures resulting from fluctuations in foreign currency exchange rates may change over time as our business evolves and could have an adverse impact on our financial condition, cash flows and/or results of operations. We have not entered into any derivative instruments or hedging contracts to reduce exposure to adverse foreign currency changes.

Other potential risks include difficulties associated with staffing and management, reliance on independent distributors, longer payment cycles, potentially unfavorable changes to foreign tax rules, compliance with foreign regulatory requirements, effects of a variety of foreign laws and regulations, including restrictions on access to personal information, reduced protection of intellectual property rights, variability of foreign economic conditions, governmental currency controls, difficulties in enforcing our contracts in foreign jurisdictions, and general economic and political conditions in the countries where we sell our products and services. Some of our products may contain encrypted technology, the export of which is regulated by the United States government. Changes in United States and other applicable export laws and regulations restricting the export of software or encryption technology could result in delays or reductions in our shipments of products internationally. There can be no assurance that we will be able to successfully address these challenges.

We may face exposure to unknown tax liabilities, which could adversely affect our financial condition, cash flows and/or results of operations.

We are subject to income and non-income based taxes in the United States and in various foreign jurisdictions. Significant judgment is required in determining our worldwide income tax liabilities and other tax liabilities. In addition, we expect to continue to benefit from implemented tax-saving strategies. We believe that these tax-saving strategies comply with applicable tax law. If the governing tax authorities have a different interpretation of the applicable law and successfully challenge any of our tax positions, our financial condition, cash flows and/or results of operations could be adversely affected.

Our US companies are the subject of an examination by the Internal Revenue Service as well as several state tax departments. Three of our foreign subsidiaries are the subject of a tax examination by the local taxing authorities. Other foreign subsidiaries could face challenges from various foreign tax authorities. It is not certain that the local authorities will accept our tax positions. We believe our tax positions comply with applicable tax law and intend to vigorously defend our positions. However, differing positions on certain issues could be upheld by foreign tax authorities, which could adversely affect our financial condition and/or results of operations.

Our stock price may be volatile.

Prices on the global financial markets for equity securities declined precipitously since September 2008. No assurance can be given that operating results will not vary from quarter to quarter, and past performance may not accurately predict future performance. Any fluctuations in quarterly operating results may result in volatility in our stock price. Our stock price may also be volatile, in part, due to external factors such as announcements by third parties or competitors, inherent volatility in the technology sector, variability in demand from our existing customers, failure to meet the expectations of market analysts, the level of our operating expenses and changing market conditions in the software industry. In addition, the financial markets have experienced significant price and volume fluctuations that have particularly affected the stock prices of many technology companies and financial services companies, and these fluctuations sometimes are unrelated to the operating performance of these companies. Broad market fluctuations, as well as industry-specific and general economic conditions may adversely affect the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

We lease office space in Naples, Florida, for our principal executive headquarters. The Naples lease expires in 2017. We also lease office space in Omaha, Nebraska, for our principal product development group, sales and support groups for the Americas, as well as our corporate, accounting and administrative functions. The Omaha lease continues through 2028. Our EMEA headquarters is located in Watford, England. The lease for the Watford facility expires at the end of 2023. Our Asia/Pacific headquarters is located in Singapore, with the lease for this facility expiring in fiscal 2017. We also lease office space in numerous other locations in the United States and in many other countries.

We believe that our current facilities are adequate for our present and short-term foreseeable needs and that additional suitable space will be available as required. We also believe that we will be able to renew leases as they expire or secure alternate suitable space. See Note 14, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements for additional information regarding our obligations under our facilities leases.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in various litigation matters arising in the ordinary course of our business. We are not currently a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, we believe would be likely to have a material effect on our financial statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on The NASDAQ Global Select Market under the symbol ACIW. The following table sets forth, for the periods indicated, the high and low sale prices of our common stock as reported by The NASDAQ Global Select Market:

	Year ended December 31, 2013		Year ended December 31, 2012	
	High	**Low**	**High**	**Low**
Fourth quarter	$ 65.00	$ 52.11	$ 43.89	$ 38.03
Third quarter	$ 54.09	$ 46.57	$ 46.54	$ 40.68
Second quarter	$ 47.64	$ 42.90	$ 44.21	$ 36.94
First quarter	$ 48.86	$ 44.45	$ 41.62	$ 28.23

As of February 24, 2014, there were 339 holders of record of our common stock. A substantially greater number of holders of our common stock are street name or beneficial holders, whose shares are held of record by banks, brokers and other financial institutions.

Dividends

We have never declared nor paid cash dividends on our common stock. We do not presently anticipate paying cash dividends. However, any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend upon our financial condition, capital requirements and earnings, as well as other factors the board of directors may deem relevant. The terms of our current Credit Facility may restrict the payment of dividends subject to the Company meeting certain financial metrics and being in compliance with the events of default provisions of the agreement.

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Issuer Purchases of Equity Securities

The following table provides information regarding the Company s repurchases of its common stock during the three months ended December 31, 2013:

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 (2)
October 1 through October 31, 2013	5,100	$ 51.96	5,100	$ 109,665,000
November 1 through November 30, 2013	3,769(1)	59.61		109,665,000
December 1 through December 31, 2013	1,572(1)	64.51		109,665,000
Total	10,441	$ 56.61	5,100	

(1) Pursuant to our 2005 Equity and Performance Incentive Plan, as amended (the 2005 Incentive Plan), we granted restricted share awards (RSAs). These awards have requisite service periods of three years and vest in increments of 33% on the anniversary of the grant date. Under each arrangement, stock is issued without direct cost to the employee. 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. During the three months ended December 31, 2013, 16,683 RSAs vested. We withheld 5,341 shares to pay the employees portion of applicable withholding taxes.

(2) Approximate dollar value remaining based upon the closing stock price on December 31, 2013.

In fiscal 2005, we announced that our Board of Directors approved a stock repurchase program authorizing us, from time to time as market and business conditions warrant, to acquire up to $80 million of our common stock, and that we intended to use existing cash and cash equivalents to fund these repurchases. Our Board of Directors approved an increase of $30 million, $100 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 2,500,000 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, our Board of Directors approved an additional $100 million for stock repurchases. Approximately $109.7 million remains available at December 31, 2013. On February 24, 2014, the Company s Board of Directors approved an additional $100 million for the stock repurchase program. 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.

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Stock Performance Graph and Cumulative Total Return

The following table shows a line-graph presentation comparing cumulative stockholder return on an indexed basis with a broad equity market index and either a nationally-recognized industry standard or an index of peer companies selected by us. We selected the S&P 500 Index and the NASDAQ Electronic Components Index for comparison.

The graph above assumes that a $100 investment was made in our common stock and each index on December 31, 2008, and that all dividends were reinvested. Also included are the respective investment returns based upon the stock and index values as of the end of each year during such five-year period. The information was provided by Zacks Investment Research, Inc. of Chicago, Illinois.

The stock performance graph disclosure above is not considered filed with the SEC under the Securities and Exchange Act of 1934, as amended, and is not incorporated by reference in any past or future filing by us under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, unless specifically referenced.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data has been derived from our consolidated financial statements. This data should be read together with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations , and the consolidated financial statements and related notes included elsewhere in this Annual Report. The financial information below is not necessarily indicative of the results of future operations. Future results could differ materially from historical results due to many factors, including those discussed in Item 1A in the section entitled Risk Factors.

	Years Ended December 31,				
	2013 (1)	2012 (2)	2011	2010	2009
	(in thousands, except per share data)				
Income Statement Data:					
Total revenues	$ 864,928	$ 666,579	$ 465,095	$ 418,424	$ 405,755
Net income	$ 63,868	$ 48,846	$ 45,852	$ 27,195	$ 19,626
Earnings per share:					
Basic	$ 1.63	$ 1.26	$ 1.37	$ 0.81	$ 0.57
Diluted	$ 1.60	$ 1.22	$ 1.34	$ 0.80	$ 0.57
Shares used in computing earnings per share:					
Basic	39,295	38,696	33,457	33,560	34,368
Diluted	40,018	39,905	34,195	33,870	34,554

	As of December 31,				
	2013 (1)	2012 (2)	2011	2010	2009
Balance Sheet Data:					
Working capital	$ 90,762	$ 89,527	$ 114,807	$ 24,045	$ 78,662
Total assets	1,681,851	1,250,886	664,642	601,529	590,043
Current portion of debt (4)	47,313	17,500		75,000	
Debt (long-term portion) (3) (4)	716,763	369,064	77,058	2,790	77,408
Stockholders equity	543,694	534,357	317,330	255,623	236,063

(1) The consolidated balance sheet and statement of income for the year ended December 31, 2013 includes the acquisition of OPAY, ORCC and PTESA as discussed in Note 2, *Acquisitions*.

(2) The consolidated balance sheet and statement of income for the year ended December 31, 2012 includes the acquisition of Distra, North Data and S1 as discussed in Note 2, *Acquisitions*.

(3) Debt (long-term portion) includes long-term capital lease obligations of $0.9 million, $1.8 million, and $1.5 million as of December 31, 2011, 2010, and 2009, respectively, which is included in other noncurrent liabilities in the consolidated balance sheets. We had no material capital lease obligations at December 31, 2013 and 2012.

(4) During the year ended December 31, 2013, we increased the Term Facility by $300 million to fund the acquisition of ORCC and amended our Credit Agreement to extend the term to 2018. We also added $300 million in Senior Notes during the year ended December 31, 2013, all of which is due in August 2020. See Note 4, *Debt,* for further discussion. Our previous revolving credit facility had a maturity date of September 29, 2011; therefore, it was moved to current from long-term as of December 31, 2010. We refinanced this credit facility in the third quarter of 2011 with a new long term credit facility that was replaced with the Credit Agreement in November 2011. The outstanding balance of the Credit Agreement increased in 2012 due to the S1 acquisition. We also financed through a vendor a five-year license agreement during the year ended December 31, 2012.

Approximately $9.3 million of this balance is outstanding at December 31, 2013. Of this balance, $3.0 million is included in current liabilities and $6.3 million is included in noncurrent liabilities in the consolidated balance sheets at December 31, 2013.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

ACI Worldwide powers electronic payments and banking for nearly 2,600 financial institutions, retailers and processors around the world. In addition, we provide bill presentment and payment collection services to billers such as tax authorities, higher education, utilities, and health care providers. Through our integrated suite of software products and hosted services, we deliver a broad range of solutions for electronic payments, transaction banking, mobile, branch and voice banking; fraud detection and trade finance.

In addition to our own products, we distribute, or act as a sales agent for, software developed by third parties. Our products are sold and supported through distribution networks covering three geographic regions the Americas, EMEA and Asia/Pacific. Each distribution network has its own globally coordinated sales force and supplements its sales force with independent reseller and/or distributor networks. Our products and services are used principally by financial institutions, retailers and electronic payment processors, both in domestic and international markets. Accordingly, our business and operating results are influenced by trends such as information technology spending levels, the growth rate of the electronic payments industry, mandated regulatory changes, and changes in the number and type of customers in the financial services industry. Our products are marketed under the ACI Worldwide and ACI Payment Systems 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 also continue to grow centers of expertise in Timisoara, Romania and Pune and Bangalore in India as well as key operational centers such as Capetown, 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. In February 2011 Boston Consulting Group predicted that noncash payment transactions would grow in volume at an annual rate of 9% from 309 billion in 2010 to 740 billion in 2020, with varying growth rates based on the type of payment and part of the world. We leverage the growth in transaction volumes through the licensing of new systems to customers whose older systems cannot handle increased volume and through the licensing of capacity upgrades to existing customers.

Adoption of real-time delivery. Customer expectations, from both consumers and corporate, are driving the payments world to more real-time delivery. In the UK, payments sent through the traditional ACH multi day batch service can now be sent through the Faster Payments service giving almost immediate access to the funds and this is being considered in several countries including Singapore and the US. Corporate customers expect real-time information on the status of their payments instead of waiting for an end of day report. And 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, retailers and electronic payment processors are seeking to transition their systems to make use of cloud technology. Currently this is impacting areas such as customer relationship management systems rather than payment services. Our investment in ACI On Demand provides us the grounding to deliver cloud capabilities in the future.

Electronic payments fraud and compliance. As electronic payment transaction volumes increase, criminal elements continue to find ways to commit a growing volume of fraudulent transactions using a wide range of techniques. Financial institutions, retailers and electronic payment processors continue to seek ways to leverage new technologies to identify and prevent fraudulent transactions 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 payment fraud and compliance activity.

Adoption of smartcard technology. In many markets, card issuers are being required to issue new cards with embedded chip technology, most recently 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.). The EMV standard for issuing and processing debit and credit card transactions has emerged as the global standard, with many regions throughout the world working on EMV rollouts. The primary benefit of EMV deployment is a reduction in electronic payment fraud, with the additional benefit that the core infrastructure necessary for multi-function chip cards is being put in place (e.g., chip card readers in ATMs and POS devices) allowing the deployment of other technologies like contactless. We are working with many customers around the world to facilitate EMV deployments, leveraging several of our solutions.

Single Euro Payments Area (SEPA). The SEPA, primarily focused on the European Economic Community and the United Kingdom, is designed to facilitate lower costs for cross-border payments and reduce timeframes for settling electronic payment transactions. Recent moves to set an end date for the transition to SEPA payment mechanisms will drive more volume to these systems with the potential to cause banks to review the capabilities of the systems supporting these payments. Our retail and wholesale banking solutions facilitate key functions that help financial institutions address these mandated regulations.

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

Global vendor sourcing. Global and regional financial institutions, processors and retailers are aiming to reduce the costs in supplier management by picking suppliers who can service them across all their geographies instead of allowing each country operation to choose suppliers independently. Our global footprint from both customer and a delivery perspective enable us to be successful in this global sourced market. However, projects in these environments tend to be more complex and therefore of higher risk.

Electronic payments convergence. As electronic payment volumes grow and pressures to lower overall cost per transaction increase, financial institutions are seeking methods to consolidate their payment processing across the enterprise. We believe that the strategy of using service-oriented-architectures to allow for re-use of common electronic payment functions such as authentication, authorization, routing and settlement will become more common. Using these techniques, financial institutions will be able to reduce costs, increase overall service levels, enable one-to-one marketing in multiple bank channels, leverage volumes for improved pricing and liquidity, and manage enterprise risk. Our 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. Our customers have been making use of existing products to deploy mobile banking, mobile payment and mobile commerce and mobile payment solutions for their customers in many countries. In addition, ACI has invested in mobile products of our own and via partnerships to support mobile functionality in the marketplace.

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

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

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

Acquisitions

Official Payments Holdings, Inc.

On November 5, 2013, we completed the tender offer for OPAY and all its subsidiaries. The Company paid $8.35 per share of common stock for approximately $139.8 million using cash on hand and a temporary draw on the Revolving Credit Facility for the common stock outstanding. As a leading provider of electronic bill payment solutions in the U.S., serving federal, state and local governments, municipal utilities, higher education institutions and charitable giving organizations, OPAY s proven team, loyal user base and vertical expertise make it an ideal match for the Company. The acquisition will further extend ACI s leadership in the fast-growing Electronic Bill Presentment and Payment (EBPP) space, expanding its portfolio across key sectors including federal, state and local governments, municipal utilities, higher education institutions and charitable giving organizations.

Online Resources Corporation

On March 11, 2013, we completed the tender offer for ORCC and all its subsidiaries. The Company paid cash of $3.85 per share of common stock for approximately $132.9 million and $127.2 million for the Series A-1 Convertible Preferred Stock for a total purchase price of $260.1 million (the Merger). As a leading provider of online banking and full service bill pay solutions, the acquisition of ORCC added EBPP solutions as a strategic part of ACI s Universal Payments portfolio. It also strengthened the Company s online banking capabilities with complementary technology, and expanded the Company s leadership in serving community banking and credit union customers.

Each outstanding option to acquire ORCC common stock was canceled and terminated at the effective time of the Merger and converted into the right to receive an equivalent number of options to purchase ACI common stock. Each ORCC restricted stock unit was vested immediately prior to the effective time of the Merger and received $3.85 per share.

We used funds from the $300 million of senior bank financing arranged through Wells Fargo Securities, LLC to fund the acquisition. See Note 4, Debt, for terms of the financing arrangement.

Profesionales en Transacciones Electronicas S.A.

On March 1, 2013, the Company acquired 100% of PTESA-V, 100% of PTESA-E, and the ACI related assets of PTESA-C, collectively PTESA . The common stock of PTESA-E and PTESA-V were acquired for $2.8 million and the assets of PTESA-C were acquired for $11.4 million, for a total aggregate purchase price of $14.2 million. PTESA has been a long-term partner of the Company, serving customers in South America in sales, service and support functions. The addition of the PTESA team to the Company reinforces its commitment to serve the Latin American market.

Backlog

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

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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 hosting 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 hosting 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 geographic region, as of December 31, 2013, September 30, 2013, June 30, 2013, March 31, 2013, and December 31, 2012 (in millions). Dollar amounts reflect foreign currency exchange rates as of each period end.

	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012
Americas	$ 2,831	$ 2,125	$ 2,117	$ 2,090	$ 1,429
EMEA	747	704	691	691	719
Asia/Pacific	283	283	276	275	268
Total	$ 3,861	$ 3,112	$ 3,084	$ 3,056	$ 2,416

	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012
Committed	$ 1,742	$ 1,472	$ 1,453	$ 1,478	$ 1,324
Renewal	2,119	1,640	1,631	1,578	1,092
Total	$ 3,861	$ 3,112	$ 3,084	$ 3,056	$ 2,416

Included in our 60-month backlog estimates are amounts expected to be recognized during the initial license term of customer contracts (Committed Backlog) and amounts expected to be recognized from assumed renewals of existing customer contracts (Renewal Backlog). Amounts expected to be recognized from assumed contract renewals are based on our historical renewal experience. The December 31, 2013 60-month backlog estimate includes approximately $677 million and $696 million as a result of the acquisition of ORCC and OPAY, respectively.

We also estimate 12-month backlog, segregated between monthly recurring and non-recurring revenues, using a methodology consistent with the 60-month backlog estimate. Monthly recurring revenues include all monthly license fees, maintenance fees and processing services fees. Non-recurring revenues include other software license fees and services fees. Amounts included in our 12-month backlog estimate assume renewal of one-time license fees on a monthly fee basis if such renewal is expected to occur in the next 12 months. The following table sets forth our 12-month backlog estimate, by geographic region, as of December 31, 2013 and 2012 (in millions). The December 31, 2013 12-month backlog estimate includes approximately $142 million as a result of the acquisition of OPAY and an additional $142 million as a result of the acquisition of ORCC. For all periods reported, approximately 90% of our 12-month backlog estimate is committed backlog and approximately 10% of our 12-month backlog estimate is renewal backlog. Dollar amounts reflect currency exchange rates as of each period end.

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	December 31, 2013			December 31, 2012		
	Monthly Recurring	Non-Recurring	Total	Monthly Recurring	Non-Recurring	Total
Americas	$ 571	$ 63	$ 634	$ 277	$ 69	$ 346
EMEA	130	38	168	143	37	180
Asia/Pacific	53	15	68	53	17	70
Total	$ 754	$ 116	$ 870	$ 473	$ 123	$ 596

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

RESULTS OF OPERATIONS

The following tables present the consolidated statements of income as well as the percentage relationship to total revenues of items included in our Consolidated Statements of Income (amounts in thousands):

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenues

	2013				2012	
	Amount	% of Total Revenue	$ Change vs 2012	% Change vs 2012	Amount	% of Total Revenue
Revenues:						
Initial license fees (ILFs)	$ 139,192	16.1%	$ 13,495	10.7%	$ 125,697	18.9%
Monthly license fees (MLFs)	94,739	11.0%	(1,410)	-1.5%	96,149	14.4%
License	233,931	27.0%	12,085	5.4%	221,846	33.3%
Maintenance	245,954	28.4%	46,078	23.1%	199,876	30.0%
Services	122,085	14.1%	(9,451)	-7.2%	131,536	19.7%
Hosting	262,958	30.4%	149,637	132.0%	113,321	17.0%
Total revenues	$ 864,928	100.0%	$ 198,349	29.8%	$ 666,579	100.0%

Total revenue for the year ended December 31, 2013 increased $198.3 million, or 29.8%, as compared to the same period in 2012. The increase is the result of a $12.1 million, or 5.4%, increase in license revenue, a $46.1 million, or 23.1%, increase in maintenance revenue and a $149.6 million, or 132.0%, increase in hosting revenue partially offset by a $9.5 million, or 7.2%, decrease in services revenue.

The increase in total revenue for the year ended December 31, 2013 as compared to the year ended December 31, 2012 was due to a $189.6 million, or 53.9%, increase in the Americas reportable segment and a $10.7 million, or 4.9%, increase in the EMEA reportable segment partially offset by a $2.0 million, or 2.1%, decrease in the Asia/Pacific reportable segment.

The addition of ORCC contributed $120.8 million, or 18.1%, of the increase in total revenue for the year ended December 31, 2013. The addition of OPAY contributed $23.3 million, or 3.5%, of the increase in total revenue for the year ended December 31, 2013. Excluding the impact of the addition of ORCC and OPAY, total revenue for the year ended December 31, 2013 increased $54.2 million, or 8.1%. The increase in total revenue, excluding the addition of ORCC and OPAY, is primarily due to the inclusion of S1 operations for a full year as well as increased sales and an increase in the number and size of projects that were completed and recognized during the year ended December 31, 2013 as compared to the same period in 2012.

License Revenue

Customers purchase the right to license ACI software for the term of their agreement which term 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.

As a result of the maturation of certain retail payment engine products, certain of our initial license fees are being recognized ratably over an extended period. Initial license and capacity fees that are recognized as revenue ratably over an extended period are included in our monthly license revenues. Due to the relative size and varying periods over which these revenues are being recognized, our monthly license revenues have decreased as compared to the same period in 2012.

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 by $13.5 million, or 10.7%, during the year ended December 31, 2013, as compared to the same period in 2012 with the Americas reportable segment increasing by $25.5 million partially offset by decreases in the EMEA and Asia/Pacific reportable segments of $5.1 million and $6.9 million, respectively. The decrease in initial license revenue in the Asia/Pacific reportable segment is largely attributable to a larger number of customers converting from perpetual license arrangements to term and transaction based license arrangements during the year ended December 31, 2012 as compared to the same period in 2013. Included in the above are capacity related revenue increases of $23.6 million and $3.9 million in the Americas and Asia/Pacific reportable segments, respectively, partially offset by a decrease of $3.3 million in the EMEA reportable segment during the year ended December 31, 2013 as compared to the same period in 2012.

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 decreased $1.4 million, or 1.5%, during the year ended December 31, 2013, as compared to the same period in 2012 with the Americas and EMEA reportable segments decreasing by $2.2 million and $0.1 million, respectively, partially offset by an increase in the Asia/Pacific reportable segment of $0.9 million. The decrease in monthly license revenue is primarily due to a decrease in the amount of initial license revenue that is being recognized ratably over an extended period as a result of the maturation of certain retail payment engine products.

Maintenance Revenue

Maintenance revenue includes standard and enhanced maintenance or any post contract support fees received from customers for the provision of product support services. Maintenance revenue during the year ended December 31, 2013, as compared to the same period in 2012 increased $46.1 million, or 23.1%, of which $1.3 million, or 0.1%, was due to the addition of ORCC. Maintenance revenue increased in the Americas, EMEA and Asia/Pacific reportable segments by $14.0 million, $23.1 million and $9.0 million, respectively. Increases in maintenance revenue are primarily driven by increases in our customer installation base, expanded product usage from existing customers, and increased adoption of our enhanced support services programs.

Services Revenue

Services revenue includes fees earned through implementation services, professional services and facilities management services. Implementation services include product installations, product configurations, and retrofit custom software modifications (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 during the year ended December 31, 2013 as compared to the same period in 2012 decreased by $9.5 million, or 7.2%. Implementation and professional services decreased in the EMEA and Asia/Pacific reportable segment by $9.4 million and $5.0 million, respectively, partially offset by an increase in the Americas reportable segment of $4.9 million. Services revenue in the Americas reportable segment increased $0.9 million due to the addition of ORCC.

Hosting Revenue

Hosting revenue includes fees earned through hosting and on-demand arrangements. All revenue from hosting and on-demand arrangements that does not qualify for treatment as separate units of accounting, which include set-up fees, implementation or customization services, and product support services, are included in hosting revenue. For 2013, hosting revenue also includes fees paid by our clients as a part of the acquired EBPP products. Fees may be paid by our clients or directly by their customers and may be a percentage of the underlying transaction amount, a fixed fee per executed transaction or a monthly fee for each customer enrolled.

Hosting revenue during the year ended December 31, 2013 as compared to the same period in 2012 increased $149.6 million, or 132.0%, of which $141.8 million, or 125.1%, was due to the addition of ORCC and OPAY. The remaining increase is attributed to new customers adopting our on-demand or hosted offerings and existing customers adding new functionality or services.

Operating Expenses

	2013				2012	
	Amount	% of Total Revenue	$ Change vs 2012	% Change vs 2012	Amount	% of Total Revenue
Operating expenses:						
Cost of license	$ 25,324	2.9%	$ 1,732	7.3%	$ 23,592	3.5%
Cost of maintenance, services and hosting	318,515	36.8%	116,463	57.6%	202,052	30.3%
Research and development	142,557	16.5%	8,798	6.6%	133,759	20.1%
Selling and marketing	99,828	11.5%	12,774	14.7%	87,054	13.1%
General and administrative	99,300	11.5%	(9,447)	-8.7%	108,747	16.3%
Depreciation and amortization	56,356	6.5%	19,353	52.3%	37,003	5.6%
Total operating expenses	$ 741,880	85.8%	$ 149,673	25.3%	$ 592,207	88.8%

Total operating expenses for the year ended December 31, 2013 increased $149.7 million, or 25.3%, as compared to the same period of 2012. Included in operating expenses for the year ended December 31, 2013 were approximately $108.1 million and $22.9 million of operating expenses from the addition of ORCC and OPAY, respectively. There were approximately $26.2 million and $31.5 million of significant transaction related expenses incurred in the years ended December 31, 2013, and December 31, 2012, respectively. Significant transaction related expenses for the year ended December 31, 2013 included $10.6 million of personnel related charges and $15.6 million of professional and other expenses related to the acquisition of ORCC and OPAY. Excluding these expenses, total operating expenses increased $24.0 million in the year ended December 31, 2013 compared to the same period in 2012 primarily due to the inclusion of S1 operations for a full twelve months.

Cost of License

The cost of license for our products sold includes third-party software royalties as well as the amortization of purchased and developed software for resale. In general, the cost of license for our products is minimal because we internally develop most of the software components, the cost of which is reflected in research and development expense as it is incurred as technological feasibility coincides with general availability of the software components.

Cost of license increased $1.7 million, or 7.3% in the twelve months ended December 31, 2013 compared to the same period in 2012 primarily due to an increase in third party royalty fees.

Cost of Maintenance, Services and Hosting

Cost of maintenance, services and hosting includes costs to provide hosting services and both the costs of maintaining our software products as well as the service costs required to deliver, install and support software at customer sites. Maintenance costs include the efforts associated with providing the customer with upgrades, 24-hour help desk, post go-live (remote) support and production-type support for software that was previously installed at a customer location. Service costs include human resource costs and other incidental costs such as travel and training required for both pre go-live and post go-live support. Such efforts include project management, delivery, product customization and implementation, installation support, consulting, configuration, and on-site support. Hosting costs related to the acquired EBPP products include payment card interchange fees, assessments payable to banks and payment card processing fees.

Cost of maintenance, services, and hosting increased $116.5 million, or 57.6% in the twelve months ended December 31, 2013 compared to the same period in 2012. There were $79.4 million and $18.8 million of ORCC and OPAY expenses, respectively, added in the twelve months ended December 31, 2013. Excluding these expenses, the cost of maintenance, services and hosting increased $18.3 million in the twelve months ended December 31, 2013 compared to the same period in 2012 primarily due the inclusion of S1 operations for a full twelve months.

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.

Research and development expense increased $8.8 million, or 6.6% in the twelve months ended December 31, 2013 compared to the same period in 2012. There were $7.2 million and $0.6 million of ORCC and OPAY expenses, respectively, added in the twelve months ended December 31, 2013. Excluding these expenses, the cost of research and development increased $1.0 million in the twelve months ended December 31, 2013 compared to the same period in 2012 primarily due to the inclusion of S1 operations for a full twelve months.

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 needed to promote the Company and its products as well as perform or acquire market research to help us better understand what products our customers are looking for in the future. Marketing costs also include the costs associated with measuring customers opinions toward the Company, our products and personnel.

Selling and marketing expense increased $12.8 million, or 14.7% in the twelve months ended December 31, 2013 compared to the same period in 2012. There were $6.3 million and $1.0 million of ORCC and OPAY expenses, respectively, added in the twelve months ended December 31, 2013. Excluding these expenses, the cost of selling and marketing increased $5.5 million in the twelve months ended December 31, 2013 compared to the same period in 2012 primarily due the inclusion of S1 operations for a full twelve months.

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 decreased $9.4 million, or 8.7%, in the twelve months ended December 31, 2013. There were approximately $26.2 million and $31.5 million of significant transaction related expenses incurred in the years ended December 31, 2013 and December 31, 2012, respectively. Significant transaction related expenses for the year ended December 31, 2013 included $10.6 million of personnel related charges and $15.2 million of professional and other expenses related to the acquisition of ORCC and OPAY. Excluding these expenses, total general and administrative expenses decreased $4.1 million in the twelve months ended December 31, 2013, primarily due to a net release of bad debt allowances.

Depreciation and Amortization

Depreciation and amortization expense increased $19.4 million, or 52.3%, in the twelve months ended December 31, 2013 compared to the same period in 2012 primarily due to acquisition related intangibles.

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Other Income and Expense

	2013				2012	
	Amount	% of Total Revenue	$ Change vs 2012	% Change vs 2012	Amount	% of Total Revenue
Other income (expense):						
Interest expense	$ (27,221)	-3.1%	$ (16,804)	161.3%	$ (10,417)	-1.6%
Interest income	659	0.1%	(255)	-27.9%	914	0.1%
Other, net	(3,327)	-0.4%	(3,726)	-933.8%	399	0.1%
Total other income (expense)	$ (29,889)	-3.5%	$ (20,785)	228.3%	$ (9,104)	-1.4%

Interest expense for the year ended December 31, 2013 increased $16.8 million, or 161.3%, as compared to the same period in 2012 due to the increase in debt obtained in 2013 partially used to fund acquisitions. Interest income for the year ended December 31, 2013 decreased $0.3 million as compared to the same period in 2012.

Other, net consists of foreign currency losses and other non-operating items. Foreign currency losses for the years ended December 31, 2013 and 2012 were $2.7 million and $0.8 million, respectively. We also realized a gain of $1.6 million on the shares of S1 stock previously held as available-for-sale during the year ended December 31, 2012.

Income Taxes

	2013				2012	
	Amount	% of Total Revenue	$ Change vs 2012	% Change vs 2012	Amount	% of Total Revenue
Income tax expense	$ 29,291	3.4%	$ 12,869	78.4%	$ 16,422	2.5%
Effective Income tax rate	31.4%				25.2%	

The effective tax rates for the years ended December 31, 2013 and 2012 were approximately 31.4% and 25.2%, respectively. Our effective tax rate each year varies from our federal statutory rate because we operate in multiple foreign countries where we apply their tax laws and rates which vary from those that we apply to the income we generate from our domestic operations. Of the foreign jurisdictions in which we operate, our December 31, 2013 effective tax rate was most impacted by our operations in Canada, Singapore, South Africa and United Kingdom and our December 31, 2012 effective tax rates were most impacted by our operations in Canada, Ireland and United Kingdom where the tax rates are significantly less than the United States. Our effective rate is negatively impacted by the inclusion of certain foreign earnings in our US tax return. The effective tax rate for the year ended December 31, 2013 was positively impacted by (i) a $4.0 million benefit related to Research and Development tax incentives, (ii) the recognition of $1.4 million in tax benefits, including $0.5 million of R&D credits, as a result of implementing the 2012 American Taxpayer Relief Act and (iii) the release of $1.6 million valuation allowance, primarily related to US capital losses that were utilized in the year. The effective tax rate for the year ended December 31, 2012 was positively impacted by (i) a $1.6 million release of an accrued tax liability and (ii) a favorable adjustment of $1.7 million to the Company s uncertain tax positions. The accrued tax liability and the accrual for uncertain positions are no longer required as the statute of limitations expired for the tax returns to which they are associated during 2012.

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Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenues

	2012				2011	
	Amount	% of Total Revenue	$ Change vs 2011	% Change vs 2011	Amount	% of Total Revenue
Revenues:						
Initial license	$ 125,697	18.9%	$ 51,507	69.4%	$ 74,190	16.0%
Monthly license	96,149	14.4%	(19,481)	-16.8%	115,630	24.9%
License	221,846	33.3%	32,026	16.9%	189,820	40.8%
Maintenance	199,876	30.0%	51,519	34.7%	148,357	31.9%
Services	131,536	19.7%	51,766	64.9%	79,770	17.2%
Hosting	113,321	17.0%	66,173	140.4%	47,148	10.1%
Total revenues	$ 666,579	100.0%	$ 201,484	43.3%	$ 465,095	100.0%

Total revenues for the year ended December 31, 2012 increased $201.5 million, or 43.3%, as compared to the same period in 2011. The increase is the result of a $32.0 million, or 16.9%, increase in license revenue, a $51.5 million, or 34.7%, increase in maintenance revenue, a $51.8 million, or 64.9%, increase in services revenue and a $66.2 million, or 140.4%, increase in hosting revenue.

The increase in total revenue for the year ended December 31, 2012 as compared to the year ended December 31, 2011 was due to a $106.5 million, or 43.1%, increase in the Americas reportable segment, a $53.1 million, or 32.2%, increase in the EMEA reportable segment and a $41.8 million, or 76.8%, increase in the Asia/Pacific reportable segment.

The addition of S1 contributed $161.9 million, or 34.8%, of the increase in total revenue for the year ended December 31, 2012. Excluding the impact of the addition of S1, total revenue for the year ended December 31, 2012 increased $39.6 million, or 8.5%. The increase in total revenue, excluding the addition of S1, is primarily due to increased sales and an increase in the number and size of projects that were completed and recognized during the year ended December 31, 2012 as compared to the same period in 2011.

License Revenue

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

Initial License Revenue

Initial license revenue during the year ended December 31, 2012 compared to the same period in 2011, increased by $51.5 million, or 69.4%, of which $6.1 million, or 8.2% was due to the addition of S1. All reportable segments experienced increases in initial license revenue with the Americas, EMEA and Asia/Pacific reportable segments increasing by $4.3 million, $32.1 million and $15.1 million, respectively. The increase in initial license revenue in the Asia/Pacific reportable segment is largely attributable to customers converting from perpetual license arrangements to term and transaction based license arrangements during the year ended December 31, 2012 as compared to the same period in 2011. Included in the above are capacity related revenue increases of $9.4 million, $17.7 million and $1.3 million in the Americas, EMEA and Asia/Pacific reportable segments, respectively, in the year ended December 31, 2012 as compared to the same period in 2011.

Monthly License Revenue

Monthly license revenue decreased $19.5 million, or 16.8%, during the year ended December 31, 2012, as compared to the same period in 2011 with the Americas and EMEA reportable segments decreasing by $5.0 million and $16.4 million, respectively, partially offset by an increase in the Asia/Pacific reportable segment of $1.9 million. Monthly license revenue increased $5.0 million, or 4.3%, due to the addition of S1. The decrease in monthly license revenues is primarily due to a decrease in the amount of initial license revenue that is being recognized ratably over an extended period as a result of the maturation of certain retail payment engine products.

Maintenance Revenue

Maintenance revenue during the year ended December 31, 2012, as compared to the same period in 2011 increased $51.5 million, or 34.7%, of which $48.3 million, or 32.6%, was due to the addition of S1. Maintenance revenue increased in the Americas, EMEA and Asia/Pacific reportable segments by $26.6 million, $13.6 million and $11.3 million, respectively. Increases in maintenance revenue are primarily driven by increases in our customer installation base, expanded product usage from existing customers, and increased adoption of enhanced support programs.

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Services Revenue

Services revenue during the year ended December 31, 2012 as compared to the same period in 2011 increased by $51.8 million, or 64.9%, of which $43.3 million, or 54.2%, was due to the addition of S1. Implementation and professional services increased in the Americas, EMEA and Asia/Pacific reportable segment by $19.3 million, $19.0 million and $13.5 million, respectively.

Hosting Revenue

Hosting revenue during the year ended December 31, 2012 as compared to the same period in 2011 increased $66.2 million, or 140.4%, of which $59.2 million, or 125.6%, was due to the addition of S1. The remaining increase is primarily in the Americas reportable segment and can be attributed to new customers adopting our on-demand or hosted offerings and existing customers adding new functionality or services.

Operating Expenses

	2012				2011	
	Amount	% of Total Revenue	$ Change vs 2011	% Change vs 2011	Amount	% of Total Revenue
Operating expenses:						
Cost of license	$ 23,592	3.5%	$ 8,174	53.0%	$ 15,418	3.3%
Cost of maintenance, services and hosting	202,052	30.3%	83,186	70.0%	118,866	25.6%
Research and development	133,759	20.1%	43,583	48.3%	90,176	19.4%
Selling and marketing	87,054	13.1%	6,132	7.6%	80,922	17.4%
General and administrative	108,747	16.3%	37,322	52.3%	71,425	15.4%
Depreciation and amortization	37,003	5.6%	14,946	67.8%	22,057	4.7%
Total operating expenses	$ 592,207	88.8%	$ 193,343	48.5%	$ 398,864	85.8%

Total operating expenses for the year ended December 31, 2012 increased $193.3 million, or 48.5%, as compared to the same period of 2011. Included in operating expenses for the year ended December 31, 2012 were approximately $159.0 million of operating expenses related to the addition of S1. Additionally, there were approximately $31.5 million and $6.7 million of significant transaction related expenses incurred in the year ended December 31, 2012, and December 31, 2011, respectively. Included in the $31.5 million of significant transaction related expenses for the year ended December 31, 2012 were $14.2 million of severance expense and accelerated share-based compensation expense, $4.1 million related to investment banking fees, $5.4 million related to IT outsource termination charges and data center relocations, $4.9 million related to facility termination charges and $2.9 million of additional professional fees related to the acquisition of S1. Excluding these expenses, total operating expenses increased $9.5 million in the year ended December 31, 2012 compared to the same period in 2011.

Cost of License

Cost of license increased $8.2 million, or 53.0%, in the year ended December 31, 2012 compared to the same period in 2011 primarily from $7.5 million of amortization for S1 acquisition software.

Cost of Maintenance, Services and Hosting

Cost of maintenance, services, and hosting increased $83.2 million, or 70.0%, in the year ended December 31, 2012 compared to the same period in 2011 primarily as a result of $77.7 million from the addition of S1 and $6.6 million from an increase in the recognition of deferred costs associated with various go-live events.

Research and Development

Research and development expense increased $43.6 million, or 48.3%, in the year ended December 31, 2012 compared to the same period in 2011 primarily as a result of $36.8 million from the addition of S1 and $6.8 million in increased personnel costs.

Selling and Marketing

Selling and marketing expense increased $6.1 million, or 7.6%, in the year ended December 31, 2012 compared to the same period in 2011 primarily as a result of $12.0 million from the addition of S1, partially offset by a $5.9 million decrease in personnel related expenses.

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General and Administrative

General and administrative expense increased $37.3 million, or 52.3%, in the year ended December 31, 2012 compared to the same period in 2011. There were approximately $31.5 million and $6.7 million of significant transaction related expenses incurred in the year ended December 31, 2012, and December 31, 2011, respectively. Included in the $31.5 million of significant transaction related expenses for the year ended December 31, 2012 were $14.2 million of severance expense and accelerated share-based compensation expense, $4.1 million related to investment banking fees, $5.4 million related to IT outsource termination charges, and data center relocations, $4.9 million related to facility termination charges and $2.9 million of additional professional fees related to the acquisition of S1. Additionally, $11.3 million of the increase was the result of the addition of S1. Excluding these expenses, total general and administrative expenses increased $1.2 million in the year ended December 31, 2012 compared to the same period in 2011, primarily due to decreased personnel related expenses.

Depreciation and Amortization

Depreciation and amortization expense increased $14.9 million, or 67.8%, in the year ended December 31, 2012 compared to the same period in 2011 primarily as a result of $12.7 million from the addition of S1 and $1.1 million from the addition of North Data and Distra acquisition intangible amortization.

Other Income and Expense

	2012				2011	
	Amount	% of Total Revenue	$ Change vs 2011	% Change vs 2011	Amount	% of Total Revenue
Other income (expense):						
Interest expense	(10,417)	-1.6%	(7,986)	328.5%	(2,431)	-0.5%
Interest income	$ 914	0.1%	$ (401)	-30.5%	$ 1,315	0.3%
Other, net	399	0.1%	1,201	-149.8%	(802)	-0.2%
Total other income (expense)	$ (9,104)	-1.4%	$ (7,186)	374.7%	$ (1,918)	-0.4%

Interest expense for the year ended December 31, 2012 increased $8.0 million as compared to the same period in 2011 due to the increased debt used to partially fund the S1 acquisition during the first quarter of 2012.

Interest income for the year ended December 31, 2012 decreased $0.4 million, or 30.5%, as compared to the same period in 2011. The decrease in interest income is primarily due to $0.5 million in interest related to a tax refund recognized during the year ended December 31, 2011.

Other, net consists of foreign currency losses and other non-operating items. Other income (expense) for the years ended December 31, 2012 and 2011 were $0.4 million and $(0.8) million, respectively. We realized a gain of $1.6 million on the shares of S1 stock previously held as available-for-sale during the year ended December 31, 2012.

Income Taxes

	2012				2011	
	Amount	% of Total Revenue	$ Change vs 2011	% Change vs 2011	Amount	% of Total Revenue
Income tax expense	$ 16,422	2.5%	$ (2,039)	-11.0%	$ 18,461	4.0%
Effective Income tax rate	25.2%				28.7%	

The effective tax rates for the years ended December 31, 2012 and 2011 were approximately 25.2% and 28.7%, respectively. Our effective tax rate each year varies from our federal statutory rate because we operate in multiple foreign countries where we apply their tax laws and rates which vary from those that we apply to the income we generate from our domestic operations. Of the foreign jurisdictions in which we operate, our December 31, 2012 and 2011 effective tax rates were most impacted by our operations in Canada, Ireland and United Kingdom where the tax rates are significantly less than the United States. The effective tax rate for the year ended December 31, 2012 was positively impacted by a $1.6 million release of an accrued tax liability and a favorable adjustment of $1.7 million to the Company s uncertain tax positions. The accrued tax liability and the accrual for uncertain positions are no longer required as the statute of limitations expired for the tax returns to which they are associated during 2012. The effective tax rate for the year ended December 31, 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 United States to non-United States entities. The effective tax rate for the year ended December 31, 2011 was also positively impacted by a favorable adjustment of $4.4 million to our reserve for uncertain tax positions partially offset by the reversal of related deferred tax assets of $2.4 million.

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Segment Results for Years Ended December 31, 2013, 2012 and 2011

The following table presents revenues and income (loss) before income taxes for the periods indicated by geographic region (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Revenues:			
Americas	$ 541,890	$ 352,197	$ 245,703
EMEA	228,679	218,015	164,874
Asia/Pacific	94,359	96,367	54,518
	$ 864,928	$ 666,579	$ 465,095
Income (loss) before income taxes:			
Americas	$ 145,496	$ 103,165	$ 84,392
EMEA	87,522	78,848	45,755
Asia/Pacific	33,923	32,673	6,962
Corporate	(173,782)	(149,418)	(72,796)
	$ 93,159	$ 65,268	$ 64,313

Reportable segment results are impacted by both direct expenses and allocated shared function costs such as global product development, global customer operations and global product management. Shared function costs are allocated to the geographic reportable segments as a percentage of revenue or as a percentage of headcount. All administrative costs that are not directly attributable or reasonably allocable to a geographic segment as well as amortization on acquired intangibles are reported in the corporate line item.

The increase in revenue and income before taxes for the Americas geographic segment is primarily due to the acquisitions completed during the year ended December 31, 2013. The Corporate line item s loss before income taxes increased for the year ended December 31, 2013 compared to the same period in 2012. This is primarily due to an increase in Corporate depreciation and amortization charges of $12.4 million and an increase in interest expense of $19.6 million in 2013 compared to 2012. This was partially offset by a decrease of significant transaction related expenses in 2013 of approximately $5.3 million compared to 2012.

The increase in revenue and income before taxes for all geographic segments is due to the acquisitions during the year ended December 31, 2012. The Corporate line item s loss before income taxes increased for the year ended December 31, 2012 compared to the same period in 2011 due to approximately $31.5 million in significant transaction related expenses related to the acquisition of S1 compared to $6.7 million in the same period for 2011. In addition, Corporate depreciation and amortization expense increased $22.3 million for the year ended December 31, 2012 primarily due to the acquisition of S1. Interest expense increased Corporate expense by $8.0 million year ended December 31, 2012 compared to the same period in 2011. The remaining increase for the year ended December 31, 2012 compared to the same period in 2011 is due to additional corporate operating costs incurred with the addition of S1. These costs include both duplicative operating costs incurred before the synergy savings plans were fully implemented and increased corporate costs added to support the larger integrated Company.

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; (iii) to fund cash portions of acquisitions, (iv) to fund stock repurchases and (v) to fund 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 Credit Agreement.

As of December 31, 2013, we had $95.1 million in cash and cash equivalents. Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less.

As of December 31, 2013, $49.9 million of the $95.1 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.

Cash Flows

The following table sets forth summary cash flow data for the periods indicated (amounts in thousands).

	Years Ended December 31,		
	2013	**2012**	**2011**
Net cash provided by (used in):			
Operating activities	$ 138,418	$ (9,265)	$ 83,462
Investing activities	(410,714)	(342,940)	(47,683)
Financing activities	291,640	233,901	(8,721)

2013 compared to 2012

Net cash flows provided by operating activities for the year ended December 31, 2013 was $138.4 million compared to used of $9.3 million during the same period in 2012. The comparative period increase was primarily due to an additional $72.6 million in cash receipts from customers and an increase in net income of $15.0 million. In addition, we paid $20.7 million to settle the IBM alliance liability in 2012. Our current policy is to use our operating cash flow primarily for funding capital expenditures, lease payments, stock repurchases and acquisitions.

During 2013, we paid $250.2 million, net of $9.9 million in cash acquired, to acquire ORCC. In addition, we paid $113.9 million, net of $25.9 million in cash acquired, to acquire OPAY. We paid $14.0 million, net of $0.2 million in cash acquired, to acquire PTESA. We also used cash of $32.6 million to purchase software, property and equipment.

In 2013, we received proceeds of $300.0 million from our Term Credit Facility to fund our purchase of ORCC. In addition, we received proceeds of $300.0 million from our Senior Notes during the year ended December 31, 2013. We used a portion of the proceeds to pay the $188.0 million balance of the Revolving Credit Facility and to repurchase $80.9 million of common stock. We repaid $30.9 million of the Term Credit Facility during the year ended December 31, 2013. In addition, during the year ended December 31, 2013, we received proceeds of $28.7 million, including corresponding excess tax benefits, from the exercises of stock options and the issuance of common stock under our 1999 Employee Stock Purchase Plan, as amended, and used $6.2 million for the repurchase of restricted stock and performance shares for tax withholdings. We paid $17.0 million in debt issuance costs in 2013. We also made payments to third-party institutions, primarily related to debt and capital leases, totaling $14.0 million.

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.

2012 compared to 2011

Net cash flows provided (used) by operating activities for the year ended December 31, 2012 amounted to $(9.3) million as compared to $83.5 million during the same period in 2011. The comparative period decrease was principally the result of the $20.7 million repayment of the IBM Alliance agreement liability due to the termination of the Alliance in December 2012, $19.4 million in S1 acquisition related acquired liabilities, $6.9 million of transaction fees related to recent acquisitions, $8.4 million paid for restructuring related severance related to the S1 acquisition, $4.1 million related to facility closures, and an additional $9.9 million in tax payments during the year ended December 31, 2012. The remainder of the decrease is primarily due to timing of the collection of receivables related to the integration activities of the recent acquisitions. We use our operating cash flow primarily for funding capital expenditures, our share buyback program, and acquisitions.

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During the year ended December 31, 2012, we paid $270.9 million, net of $97.7 million in cash acquired, to acquire S1. In addition, we paid $4.6 million, net of $0.1 million in cash acquired, to acquire North Data and $49.8 million to acquire Distra. We used cash of $16.7 million to purchase software, property and equipment.

In 2012, we received proceeds of $295.0 million from our Credit Agreement to partially fund our purchase of S1. We received an additional $24.0 million from the revolving portion of our Credit Agreement, which we subsequently used to partially fund the repurchase of 2,492,600 common stock warrants from IBM for $29.6 million. We received $11.9 million from IBM for the exercise of 11,470 common stock warrants at $27.50 and 350,000 at $33.00 per share. There are no warrants outstanding at December 31, 2012. We repaid $13.8 million and $6.0 million of the Term Credit Facility and Revolving Credit Facility, respectively, during the year ended December 31, 2012. In addition, in 2012 we received proceeds of $21.7 million, including corresponding excess tax benefits, from the exercises of stock options and the issuance of common stock under our 1999 Employee Stock Purchase Plan, as amended, and used $57.8 million for the repurchases of common stock and $3.3 million for the repurchase of restricted stock for tax withholdings. We also made payments to third-party institutions, primarily related to other debt and capital leases, totaling $8.2 million.

Debt

Credit Agreement

As of December 31, 2013, we had $455.4 million and $300.0 million outstanding under the Term portion of Credit Agreement and our Senior Notes, respectively, with up to $250.0 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 fixed charge coverage ratio. The Credit Agreement does not contain any subjective acceleration features and does not have any required payment or principal reduction schedule and is included as a long-term liability in our consolidated balance sheet. At December 31, 2013 (and at all times during the period) we were in compliance with our debt covenants. The interest rate in effect at December 31, 2013 for our Credit Agreement was 2.42%.

On August 20, 2013, the Company completed a $300.0 million offering of 6.375% Senior Notes due in 2020 (the 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 will accrue from August 20, 2013. The Senior Notes will mature on August 15, 2020.

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

Stock Repurchase Program

As of 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 2,500,000 shares of our common stock, or up to $113.0 million in place of the remaining repurchase amounts previously authorized. On September 26, 2012, we repurchased 2,492,600 common stock warrants from IBM for $29.6 million.

In July 2013, our Board of Directors approved an additional $100 million for the stock repurchase program.

We repurchased 1,656,808 shares for $80.9 million under the program during the year ended December 31, 2013. Under the program to date, we have purchased 11,176,680 shares for approximately $325.8 million. The maximum remaining authorized for purchase under the stock repurchase program was approximately $109.7 million as of December 31, 2013. On February 24, 2014, the Company s Board of Directors approved an additional $100 million for the stock repurchase program. Subsequently, the Company has repurchased approximately 930,000 shares for $54.0 million.

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

We lease office space and equipment under operating leases that run through October 2028. Additionally, we have entered into a Credit Agreement that matures in 2018 and have issued Senior Notes that mature in 2020.

Contractual obligations as of December 31, 2013 are as follows (in thousands):

		Payments due by Period			
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Contractual Obligations					
Operating lease obligations	$ 96,726	$ 18,360	$ 27,505	$ 17,113	$ 33,748
Term Credit Facility	455,383	47,313	136,023	272,047	
Senior Notes	300,000				300,000
Term Credit Facility interest (1)	35,654	10,567	16,703	8,384	
Senior Notes Interest (2)	133,875	19,125	38,250	38,250	38,250
Financed internally used software (3)	9,300	3,000	6,300		
Total	$ 1,030,938	$ 98,365	$ 224,781	$ 335,794	$ 371,998

(1) Based upon the debt outstanding and interest rate in effect at December 31, 2013 of 2.42%.
(2) Based upon Senior Notes issued of $300 million at per annum rate of 6.375%.
(3) During the year ended December 31, 2012, the Company financed through the vendor a five-year license agreement for certain internally used software for $14.8 million with annual payments due in April through 2016. Of this amount, $9.3 million remains outstanding at December 31, 2013 with $3.0 million included in other current liabilities and $6.3 million included in other non-current liabilities in our consolidated balance sheet.

We are unable to reasonably estimate the ultimate amount or timing of settlement of our reserves for income taxes under ASC 740, *Income Taxes*. The liability for unrecognized tax benefits at December 31, 2013 is $15.0 million.

Off-Balance Sheet Arrangements

Settlement Accounts

We enter 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 our 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 we receive 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 our clients which are separate from our corporate assets. As we do not take ownership of the funds, the settlement accounts are not included in our balance sheet. We are entitled to interest earned on the fund balances. The collection of interest on these settlement accounts is considered in our determination of our fee structure for clients and represents a portion of the payment for services performed by us. The amount of settlement funds as of December 31, 2013 was $284.0 million.

We do not have any other obligations that meet the definition of an off-balance sheet arrangement and that have or are reasonably likely to have a material effect on our consolidated financial statements.

Critical Accounting Policies and Estimates

The preparation of the 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 consolidated financial statements. Actual results could differ from those estimates.

The following key accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements. See Note 1, *Nature of Business and Summary of Significant Accounting Policies,* in the Notes to Consolidated Financial Statements for a further discussion of revenue recognition and other significant accounting policies.

Revenue Recognition

For software license arrangements for which services rendered are primarily related to installation of core software and are not considered essential to the functionality of the software, we recognize revenue upon delivery, provided (1) there is persuasive evidence of an arrangement, (2) collection of the fee is considered probable, and (3) the fee is fixed or determinable. In most arrangements, because vendor-specific objective evidence of fair value does not exist for the license element, we use the residual method to determine the amount of revenue to be allocated to the license element. Under the residual method, the fair value of all undelivered elements, such as post contract customer support or other products or services, is deferred and subsequently recognized as the products are delivered or the services are performed, with the residual difference between the total arrangement fee and revenues allocated to undelivered elements being allocated to the delivered element. For software license arrangements in which we have concluded that collectability issues may exist, revenue is recognized as cash is collected, provided all other conditions for revenue recognition have been met. In making the determination of collectability, we consider the creditworthiness of the customer, economic conditions in the customer s industry and geographic location, and general economic conditions.

Our sales focus continues to shift to more complex arrangements involving multiple products. As a result of this shift to more complex, multiple product arrangements, absent other factors, we initially experience an increase in deferred revenue and a corresponding decrease in current period revenue due to differences in the timing of revenue recognition for the respective products. Revenues from more complex arrangements involving our newer products are typically recognized upon acceptance or first production use by the customer or are recognized over an extended implementation period. For those arrangements where revenues are being deferred and we determine that related direct and incremental costs are recoverable, such costs are deferred and subsequently expensed as the revenues are recognized.

When a software license arrangement includes services to provide significant modification or customization of software, those services are considered essential to the functionality of the software and are not considered to be separable from the software. Accounting for such services delivered over time is referred to as contract accounting. Under contract accounting, we generally use the percentage-of-completion method. Under the percentage-of-completion method, we record revenue for the software license and services over the development and implementation period, with the percentage of completion generally measured by the percentage of labor hours incurred to-date to estimated total labor hours for each contract. Estimated total labor hours for each contract are based on the project scope, complexity, skill level requirements, and similarities with other projects of similar size and scope. For those contracts subject to contract accounting, estimates of total revenue and profitability under the contract consider amounts due under extended payment terms. We recognize revenue under these arrangements based on the lesser of payments that become due or the revenue calculated under the percentage-of-completion method based on progress toward completion in a given reporting period. For arrangements where we believe it is assured that no loss will be incurred under the arrangement and fair value for maintenance services does not exist, all revenue is deferred until services are completed.

Certain of our arrangements are through unrelated distributors or sales agents. In these situations, we evaluate additional factors such as the financial capabilities, the distribution capabilities, and risks of rebates, returns, or credits in determining whether revenue should be recognized upon sale to the distributor or sales agent (sell-in) or upon distribution to an end-customer (sell-through). Judgment is required in evaluating the facts and circumstances of our relationship with the distributor or sales agent as well as our operating history and practices that can impact the timing of revenue recognition related to these arrangements.

We may execute more than one contract or agreement with a single customer. The separate contracts or agreements may be viewed as one multiple-element arrangement or separate arrangements for revenue recognition purposes. The Company evaluates whether the agreements were negotiated as part of a single project, whether the products or services are interrelated or interdependent, whether fees in one arrangement are tied to performance in another arrangement, and whether elements in one arrangement are essential to the functionality in another arrangement in order to reach appropriate conclusions regarding whether such arrangements are related or separate. Those conclusions can impact the timing of revenue recognition related to those arrangements.

Allowance for Doubtful Accounts

We maintain a general allowance for doubtful accounts based on our historical experience, along with additional customer-specific allowances. We regularly monitor credit risk exposures in our accounts receivable. In estimating the necessary level of our allowance for doubtful accounts, management considers the aging of our accounts receivable, the creditworthiness of our customers, economic conditions within the customer s industry, and general economic conditions, among other factors. Should any of these factors change, the estimates made by management would also change, which in turn would impact the level of our future provision for doubtful accounts. Specifically, if the financial condition of our customers were to deteriorate, affecting their ability to make payments, additional customer-specific provisions for doubtful accounts may be required. Also, should deterioration occur in general economic conditions, or within a particular industry or region in which we have a number of customers, additional provisions for doubtful accounts may be recorded to reserve for potential future losses. Any such additional provisions would reduce operating income in the periods in which they were recorded.

Intangible Assets and Goodwill

Our business acquisitions typically result in the recording of intangible assets, and the recorded values of those assets may become impaired in the future. As of December 31, 2013 and December 31, 2012 our intangible assets, excluding goodwill, net of accumulated amortization, were $237.7 million and $127.9 million, respectively. The determination of the value of such intangible assets requires management to make estimates and assumptions that affect the consolidated financial statements. We assess potential impairments to intangible assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Judgments regarding the existence of impairment indicators and future cash flows related to intangible assets are based on operational performance of our businesses, market conditions and other factors. Although there are inherent uncertainties in this assessment process, the estimates and assumptions used, including estimates of future cash flows, volumes, market penetration and discount rates, are consistent with our internal planning. If these estimates or their related assumptions change in the future, we may be required to record an impairment charge on all or a portion of our intangible assets. Furthermore, we cannot predict the occurrence of future impairment-triggering events nor the impact such events might have on our reported asset values. Future events could cause us to conclude that impairment indicators exist and that intangible assets associated with acquired businesses are impaired. Any resulting impairment loss could have an impact on our results of operations.

Other intangible assets are amortized using the straight-line method over periods ranging from three years to 20 years.

As of December 31, 2013 and 2012, our goodwill was $669.2 million and $501.1 million, respectively. In accordance with 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. We evaluate goodwill at the reporting unit level and have identified our reportable segments, Americas, EMEA, and Asia/Pacific, as our reporting units. 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 key assumptions used in the discounted cash flow valuation model include discount rates, growth rates, cash flow projections and terminal value rates. Discount rates, growth rates and cash flow projections are the most sensitive and susceptible to change as they require significant management judgment. Discount rates are determined by using a weighted average cost of capital (WACC). The WACC considers market and industry data as well as Company-specific risk factors. Operational management, considering industry and Company-specific historical and projected data, develops growth rates and cash flow projections for each reporting unit. Terminal value rate determination follows common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant WACC and low long-term growth rates. If the calculated fair value is less than the current carrying value, impairment of the reporting unit may exist. If the recoverability test indicates potential impairment, we calculate an implied fair value of goodwill for the reporting unit. The implied fair value of goodwill is determined in a manner similar to how goodwill is calculated in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded to write down the carrying value. The calculated fair value substantially exceeded the current carrying value for all reporting units. No reporting units were deemed to be at risk of failing Step 1 of the goodwill impairment test under ASC No. 350.

Business Combinations

We apply the provisions of ASC 805, *Business Combinations*, in the accounting for our acquisitions. It requires us to recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of income.

Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from customer relationships, covenants not to compete and acquired developed technologies; brand awareness and market position, as well as assumptions about the period of time the brand will continue to be used in our product portfolio; and discount rates. Management s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed, as more fully discussed in Note 2 to the consolidated financial statements.

Stock-Based Compensation

Under the provisions of ASC 718, stock-based compensation cost for stock option awards is estimated at the grant date based on the award s fair value as calculated by the Black-Scholes option-pricing model and is recognized as expense ratably over the requisite service period. We recognize stock-based compensation costs for only those shares that are expected to vest. The impact of forfeitures that may occur prior to vesting is estimated and considered in the amount of expense recognized. Forfeiture estimates are revised in subsequent periods when actual forfeitures differ from those estimates. The Black-Scholes option-pricing model requires various highly judgmental assumptions including volatility and expected option life. If any of the assumptions used in the Black-Scholes model change significantly, stock-based compensation expense may differ materially for future awards from that recorded for existing awards.

We also have stock options outstanding that vest upon attainment by the Company of certain market conditions. In order to determine the grant date fair value of these stock options that vest based on the achievement of certain market conditions, a Monte Carlo simulation model is used to estimate (i) the probability that the performance goal will be achieved and (ii) the length of time required to attain the target market price.

Long term incentive program performance share awards (LTIP Performance Shares) were granted during the years ended December 31, 2013, 2012 and 2011 pursuant to our 2005 Incentive Plan. These awards are earned, if at all, based on the achievement over a specified period of performance goals related to certain performance metrics. In order to determine compensation expense to be recorded for these LTIP Performance Shares, each quarter management evaluates the probability that the target performance goals will be achieved, if at all, and the anticipated level of attainment.

During the years ended December 31, 2013, 2012 and 2011, pursuant to our 2005 Incentive Plan, we granted restricted share awards (RSAs). These awards have requisite service periods of three years and vest in increments of 33% on the anniversary dates of grants. Under each arrangement, stock is issued without direct cost to the employee. We estimate the fair value of the RSAs based upon the market price of our stock at the date of grant. The RSA grants provide for the payment of dividends on our 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.

In relation to the acquisition of S1 Corporation, we amended the S1 Corporation 2003 Stock Incentive Plan, as previously amended and restated (the S1 2003 Incentive Plan). RSAs were granted to S1 employees by S1 Corporation prior to the acquisition 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 our common 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 our 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. We recognize 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.

The assumptions utilized in the Black-Scholes option-pricing model as well as the description of the plans the stock-based awards are granted under are described in further detail in Note 11, *Stock-Based Compensation Plans*, in the Notes to Consolidated Financial Statements.

Accounting for Income Taxes

Accounting for income taxes requires significant judgments in the development of estimates used in income tax calculations. Such judgments include, but are not limited to, the likelihood we would realize the benefits of net operating loss carryforwards and/or foreign tax credit carryforwards, the adequacy of valuation allowances, and the rates used to measure transactions with foreign subsidiaries. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which the Company operates. The judgments and estimates used are subject to challenge by domestic and foreign taxing authorities.

We account for income taxes in accordance with ASC 740. As part of our process of determining current tax liability, we exercise judgment in evaluating positions we have taken in our tax returns. We periodically assess our tax exposures and establish, or adjust, estimated unrecognized benefits for probable assessments by taxing authorities, including the IRS, and various foreign and state authorities. Such unrecognized tax benefits represent the estimated provision for income taxes expected to ultimately be paid. It is possible that either domestic or foreign taxing authorities could challenge those judgments or positions and draw conclusions that would cause us to incur tax liabilities in excess of, or realize benefits less than, those currently recorded. In addition, changes in the geographical mix or estimated amount of annual pretax income could impact our overall effective tax rate.

To the extent recovery of deferred tax assets is not more likely than not, we record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Although we have considered future taxable income along with prudent and feasible tax planning strategies in assessing the need for a valuation allowance, if we should determine that we would not be able to realize all or part of our deferred tax assets in the future, an adjustment to deferred tax assets would be charged to income in the period any such determination was made. Likewise, in the event we are able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to deferred tax assets would increase income in the period any such determination was made.

Recently Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-2, *Comprehensive Income (Topic 220)* in the Accounting Standards Codifications (ASC). This update requires separate presentation of the components that are reclassified out of accumulated other comprehensive income either on the face of the financial statements or in the notes to the financial statements. This update also requires companies to disclose the income statement line items impacted by any significant reclassifications. These items are required for both interim and annual reporting for public companies and were adopted by us during the year ended December 31, 2013.

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* This update requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows: to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This update is effective for us in the first quarter of fiscal 2014 and should be applied prospectively with retroactive application permitted. We already disclose uncertain tax benefits in accordance with this standard update and no material change is expected.

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ITEM 7A. 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 year ended December 31, 2013. 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 December 31, 2013, 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 $755.4 million of debt outstanding at December 31, 2013 with $300.0 million in Senior Notes and $455.4 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 2.42% at December 31, 2013. 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 $1.1 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The required consolidated financial statements and notes thereto are included in this Annual Report and are listed in Part IV, Item 15.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

a) Evaluation of 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 (the Exchange Act)) as of the end of the period covered by this report, December 31, 2013.

In connection with our evaluation of disclosure controls and procedures, we have concluded that the Company s disclosure controls and procedures are effective as of December 31, 2013.

b) Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with United States Generally Accepted Accounting Principles (US GAAP).

Under the supervision of, and with the participation of our Chief Executive Officer and Chief Financial Officer, management assessed the effectiveness of internal control over financial reporting as of December 31, 2013. Management based its assessment on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As permitted by applicable requirements, our evaluation of and conclusion on the effectiveness of internal control over financial reporting exclude Official Payments Holdings, Inc. (OPAY), which was acquired by us on November 4, 2013. The assets recorded for this business represented $243.8 million, or 14.5% of our total consolidated assets and contributed $23.3 million, or 2.7%, to total consolidated revenues for 2013. Based on this evaluation, management concluded that the Company s internal control over financial reporting was effective as of December 31, 2013.

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The effectiveness of the Company s internal control over financial reporting as of December 31, 2013 has been audited by Deloitte & Touche, LLP, an independent registered public accounting firm, and Deloitte & Touche, LLP has issued an attestation report on our internal control over financial reporting.

c) Changes in Internal Control over Financial Reporting

On November 5, 2013, the Company completed its acquisition of OPAY. The Company considers the transaction material to its results of operations, cash flows and financial position from the date of the acquisition through December 31, 2013 and believes the internal controls and procedures of OPAY have had a material effect on the Company s internal control over financial reporting. See Note 2, *Business Combination*, to the Condensed Consolidated Financial Statements included in Item 81 for discussion of the acquisition and related financial data.

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

There have been no additional changes during the Company s quarter ended December 31, 2013 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.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

ACI Worldwide, Inc.

Omaha, Nebraska

We have audited the internal control over financial reporting of ACI Worldwide, Inc. and subsidiaries (the Company) as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management s Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Official Payments Holdings, Inc. (OPAY), which was acquired on November 5, 2013 and whose financial statements constitute $243.8 million, or 14.5%, of total consolidated assets and $23.3 million, or 2.7% of total consolidate revenue as of and for the year ended December 31, 2013. Accordingly, our audit did not include the internal control over financial reporting at OPAY. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management s Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013 of the Company and our report dated February 28, 2014 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Omaha, Nebraska

February 28, 2014

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information under the heading Executive Officers of the Registrant in Part 1, Item 1 of this Form 10-K is incorporated herein by reference.

The information required by this item with respect to our directors is included in the section entitled Nominees under Proposal 1 Election of Directors in our Proxy Statement for the Annual Meeting of Stockholders to be held on June 18, 2014 (the 2014 Proxy Statement) and is incorporated herein by reference.

Information included in the section entitled Section 16(a) Beneficial Ownership Reporting Compliance in our 2014 Proxy Statement is incorporated herein by reference.

Information related to the audit committee and the audit committee financial expert is included in the section entitled Report of Audit Committee in our 2014 Proxy Statement is incorporated herein by reference. In addition, the information included in the sections entitled Board Committees and Committee Meetings, Shareholder Recommendations for Director Nominees and Shareholder Nomination Process within the Corporate Governance section of our 2014 Proxy Statement is incorporated herein by reference.

Code of Business Conduct and Code of Ethics

We have adopted a Code of Business Conduct and Ethics for our directors, officers (including our principal executive officer, principal financial officer, principal accounting officer and controller) and employees. We have also adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers (the Code of Ethics), which applies to our Chief Executive Officer, our Chief Financial Officer, our Chief Accounting Officer, Controller, and persons performing similar functions. The full text of both the Code of Business Conduct and Ethics and Code of Ethics is published on our website at www.aciworldwide.com in the Investors Corporate Governance section. We intend to disclose future amendments to, or waivers from, certain provisions of the Code of Business Conduct and Ethics and the Code of Ethics on our website promptly following the adoption of such amendment or waiver.

ITEM 11. EXECUTIVE COMPENSATION

Information included in the sections entitled Director Compensation, Compensation Discussion and Analysis, Compensation Committee Report, Executive Compensation and Compensation Committee Interlocks and Insider Participation in our 2014 Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information included in the sections entitled Information Regarding Security Ownership in our 2014 Proxy Statement is incorporated herein by reference.

Information included in the section entitled Information Regarding Equity Compensation Plans in our 2014 Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information included in the section entitled Certain Relationships and Related Transactions, in our 2014 Proxy Statement is incorporated herein by reference.

Information included in the sections entitled Director Independence and Board Committees and Committee Meetings in the Corporate Governance section of our 2014 Proxy Statement is incorporated by reference.

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information included in the sections entitled Independent Registered Public Accounting Firm Fees and Pre-Approval of Audit and Non-Audit Services under Proposal 2 Ratification of Appointment of the Company s Independent Registered Public Accounting Firm in our 2014 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this annual report on Form 10-K:

(1) Financial Statements. The following index lists consolidated financial statements and notes thereto filed as part of this annual report on Form 10-K:

	Page
Report of Independent Registered Public Accounting Firm Deloitte & Touche LLP	54
Consolidated Balance Sheets as of December 31, 2013 and 2012	55
Consolidated Statements of Income for each of the three years in the period ended December 31, 2013	56
Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2013	57
Consolidated Statements of Stockholders Equity for each of the three years in the period ended December 31, 2013	58
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2013	59
Notes to Consolidated Financial Statements	60

(2) Financial Statement Schedules. All schedules have been omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits. A list of exhibits filed or furnished with this report on Form 10-K (or incorporated by reference to exhibits previously filed by ACI) is provided in the accompanying Exhibit Index.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

ACI Worldwide, Inc.

Omaha, Nebraska

We have audited the accompanying consolidated balance sheets of ACI Worldwide, Inc. and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ACI Worldwide, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2014, expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Omaha, Nebraska

February 28, 2014

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ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 95,059	$ 76,329
Receivables, net of allowances of $4,459 and $8,117, respectively	203,575	217,321
Deferred income taxes, net	47,593	34,342
Recoverable income taxes	2,258	5,572
Prepaid expenses	22,549	16,746
Other current assets	65,328	5,816
Total current assets	436,362	356,126
Property and equipment, net	57,347	41,286
Software, net	191,468	129,314
Goodwill	669,217	501,141
Intangible assets, net	237,693	127,900
Deferred income taxes, net	48,852	63,370
Other noncurrent assets	40,912	31,749
TOTAL ASSETS	$ 1,681,851	$ 1,250,886
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 43,658	$ 33,926
Employee compensation	35,623	35,194
Current portion of long-term debt	47,313	17,500
Deferred revenue	122,045	139,863
Income taxes payable	1,192	3,542
Deferred income taxes, net	753	174
Other current liabilities	95,016	36,400
Total current liabilities	345,600	266,599
Noncurrent liabilities		
Deferred revenue	45,656	51,519
Long-term debt	708,070	356,750
Deferred income taxes, net	11,000	14,940
Other noncurrent liabilities	27,831	26,721

Total liabilities	1,138,157	716,529
Commitments and contingencies (Note 14)		
Stockholders equity		
Preferred stock; $0.01 par value; 5,000,000 shares authorized; no shares issued and outstanding at December 31, 2013 and 2012		
Common stock; $0.005 par value; 70,000,000 shares authorized; 46,606,796 shares issued at December 31, 2013 and 2012	232	232
Additional paid-in capital	543,163	534,953
Retained earnings	263,855	199,987
Treasury stock, at cost, 7,751,807 and 7,159,023 shares at December 31, 2013 and 2012, respectively	(240,241)	(186,784)
Accumulated other comprehensive loss	(23,315)	(14,031)
Total stockholders equity	543,694	534,357
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,681,851	$ 1,250,886

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

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ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	FOR THE YEARS ENDED DECEMBER 31, 2013	2012	2011
Revenues			
License	$ 233,931	$ 221,846	$ 189,820
Maintenance	245,954	199,876	148,357
Services	122,085	131,536	79,770
Hosting	262,958	113,321	47,148
Total revenues	864,928	666,579	465,095
Operating expenses			
Cost of license (1)	25,324	23,592	15,418
Cost of maintenance, services and hosting (1)	318,515	202,052	118,866
Research and development	142,557	133,759	90,176
Selling and marketing	99,828	87,054	80,922
General and administrative	99,300	108,747	71,425
Depreciation and amortization	56,356	37,003	22,057
Total operating expenses	741,880	592,207	398,864
Operating income	123,048	74,372	66,231
Other income (expense)			
Interest expense	(27,221)	(10,417)	(2,431)
Interest income	659	914	1,315
Other, net	(3,327)	399	(802)
Total other income (expense)	(29,889)	(9,104)	(1,918)
Income before income taxes	93,159	65,268	64,313
Income tax expense	29,291	16,422	18,461
Net income	$ 63,868	$ 48,846	$ 45,852
Earnings per common share			
Basic	$ 1.63	$ 1.26	$ 1.37
Diluted	$ 1.60	$ 1.22	$ 1.34
Weighted average common shares outstanding			
Basic	39,295	38,696	33,457
Diluted	40,018	39,905	34,195

(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 consolidated financial statements.

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ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	FOR THE YEARS ENDED DECEMBER 31,		
	2013	**2012**	**2011**
Net income	$ 63,868	$ 48,846	$ 45,852
Other comprehensive income (loss):			
Unrealized gain on available-for-sale securities		963	594
Reclassification of unrealized gain to a realized gain on available-for-sale securities		(1,557)	
Foreign currency translation adjustments	(9,284)	3,824	(2,711)
Total other comprehensive income (loss):	(9,284)	3,230	(2,117)
Comprehensive income	$ 54,584	$ 52,076	$ 43,735

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

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ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)

	Common Stock	Common Stock Warrants	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2010	204	24,003	(171,676)	312,947	105,289	(15,144)	255,623
Net income					45,852		45,852
Other comprehensive loss						(2,117)	(2,117)
Shares issued and forefeited, net, under stock plans			9,007	(1,547)			7,460
Stock-based compensation				11,254			11,254
Repurchase of restricted stock for tax withholdings			(742)				(742)
Balance at December 31, 2011	204	24,003	(163,411)	322,654	151,141	(17,261)	317,330
Net income					48,846		48,846
Other comprehensive income						3,230	3,230
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 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				15,186			15,186
Shares issued and forfeited, net, under stock plans including income tax benefits			26,158	(4,584)			21,574
Repurchase of restricted stock for tax withholdings			(3,273)				(3,273)
Balance at December 31, 2012	232		(186,784)	534,953	199,987	(14,031)	534,357
Net Income					63,868		63,868
Other comprehensive loss						(9,284)	(9,284)
Stock-based compensation				13,572			13,572

Shares issued and forfeited, net, under stock plans including income tax benefits			33,677	(5,362)			28,315
Repurchase of 1,656,808 shares of common stock			(80,912)				(80,912)
Repurchase of restricted stock and performance shares for tax withholdings			(6,222)				(6,222)
Balance as of December 31, 2013	$ 232	$	$ (240,241)	$ 543,163	$ 263,855	$ (23,315)	$ 543,694

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

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ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	FOR THE YEARS ENDED DECEMBER 31,		
	2013	**2012**	**2011**
Cash flows from operating activities:			
Net income	$ 63,868	$ 48,846	$ 45,852
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation	18,751	13,284	7,541
Amortization	51,216	37,497	20,836
Amortization of deferred debt issuance costs	5,388	2,450	597
Deferred income taxes	9,573	4,775	7,513
Stock-based compensation expense	13,572	15,186	11,254
Excess tax benefit of stock options exercised	(6,960)	(3,543)	(1,879)
Other	(593)	150	54
Changes in operating assets and liabilities, net of impact of acquisitions:			
Receivables	22,496	(61,965)	(21,247)
Accounts payable	(13,548)	5,981	(4,963)
Accrued employee compensation	(24,501)	(29,026)	1,733
Repayment of IBM Alliance agreement liability		(20,667)	
Current income taxes	9,360	(5,660)	6,301
Deferred revenue	(23,613)	(11,816)	14,809
Other current and noncurrent assets and liabilities	13,409	(4,757)	(4,939)
Net cash flows from operating activities	138,418	(9,265)	83,462
Cash flows from investing activities:			
Purchases of property and equipment	(21,104)	(13,050)	(10,668)
Purchases of software and distribution rights	(11,497)	(3,612)	(8,309)
Purchase of available-for-sale securities			(10,000)
Acquisition of businesses, net of cash acquired	(378,113)	(325,232)	(16,850)
Other		(1,046)	(1,856)
Net cash flows from investing activities	(410,714)	(342,940)	(47,683)
Cash flows from financing activities:			
Proceeds from issuance of common stock	2,186	1,426	1,273
Proceeds from exercises of stock options	19,561	16,730	4,478
Excess tax benefit of stock options exercised	6,960	3,543	1,879
Repurchases of common stock	(80,912)	(57,836)	
	(6,222)	(3,273)	(742)

Repurchase of restricted stock and performance shares for tax withholdings			
Proceeds from exercises of common stock warrants		11,866	
Cash settlement of common stock warrants		(29,596)	
Repayments of revolving credit facility	(228,000)	(6,000)	(150,000)
Proceeds from revolving credit facility	40,000	119,000	150,000
Proceeds from term portion of credit agreement	300,000	200,000	
Proceeds from issuance of senior notes	300,000		
Repayment of term portion of credit agreement	(30,867)	(13,750)	
Payments on other debt and capital leases	(14,024)	(7,115)	(3,820)
Payment for debt issuance costs	(17,042)	(1,094)	(11,789)
Net cash flows from financing activities	291,640	233,901	(8,721)
Effect of exchange rate fluctuations on cash	(614)	(2,465)	(1,270)
Net increase (decrease) in cash and cash equivalents	18,730	(120,769)	25,788
Cash and cash equivalents, beginning of period	76,329	197,098	171,310
Cash and cash equivalents, end of period	$ 95,059	$ 76,329	$ 197,098
Supplemental cash flow information			
Income taxes paid, net	$ 20,191	$ 28,900	$ 19,014
Interest paid	$ 14,598	$ 8,275	$ 1,783

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

ACI Worldwide, Inc., a Delaware corporation, and its subsidiaries (collectively referred to as ACI or the Company), develop, market, install, and support a broad line of software products and services primarily focused on facilitating electronic payments. In addition to its own products, the Company distributes, or acts as a sales agent for software developed by third parties. These products and services are used principally by financial institutions, retailers, and electronic-payment processors, both in domestic and international markets.

Consolidated Financial Statements

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Recently acquired subsidiaries that are included in the Company s consolidated financial statements as of the date of their acquisition include: Official Payments Holdings, Inc. (OPAY), Online Resources Corporation (ORCC), and Profesionales en Transacciones Electonicas S.A. (PTESA) acquired during the year ended December 31, 2013 and S1 Corporation (S1), North Data Uruguay S.A. (North Data), and Distra Pty Ltd. (Distra) acquired during the year ended December 31, 2012. All intercompany balances and transactions have been eliminated.

Capital Stock

The Company s outstanding capital stock consists of a single class of common stock. Each share of common stock is entitled to one vote upon each matter subject to a stockholders vote and to dividends if and when declared by the Board of Directors.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition, Receivables and Deferred Revenue

License. The Company recognizes license revenue in accordance with ASC 985-605, *Revenue Recognition: Software*. For software license arrangements for which services rendered are primarily related to installation of core software and are not considered essential to the functionality of the software, the Company recognizes revenue upon delivery, provided (i) there is persuasive evidence of an arrangement, (ii) collection of the fee is considered probable and (iii) the fee is fixed or determinable. In most arrangements, vendor-specific objective evidence (VSOE) of fair value does not exist for the license element; therefore, the Company uses the residual method under ASC 985-605 to determine the amount of revenue to be allocated to the license element. Under ASC 985-605, the fair value of all undelivered elements, such as post contract customer support (maintenance or PCS) or other products or services, is deferred and subsequently recognized as the products are delivered or the services are performed, with the residual difference between the total arrangement fee and revenues allocated to undelivered elements being allocated to the delivered element.

When a software license arrangement includes services to provide significant modification or customization of software, those services are considered essential to the functionality of the software and are not separable from the software. These arrangements are accounted for in accordance with ASC 605-35, *Revenue Recognition: Construction-Type and Production-Type Contracts,* generally referred to as contract accounting. Under contract accounting, the Company generally uses the percentage-of-completion method. For those contracts subject to percentage-of-completion contract accounting, estimates of total revenue and profitability under the contract consider amounts due under extended payment terms. The Company recognizes revenue under these arrangements based on the lesser of payments that become due or the revenue calculated under the percentage-of-completion method. Under the percentage-of-completion method, the Company records revenue for the license and services over the development and implementation period, with the percentage of completion generally measured by the percentage of labor hours incurred to-date to estimated total labor hours for each contract. In the event project profitability is assured and estimable within a range, percentage-of-completion revenue recognition is computed using the lowest level of profitability in the range. If it is determined that a loss will result from the performance of a contract, the entire amount of the loss is recognized in the period in which it is determined that a loss will result.

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For software license arrangements in which a significant portion of the fee is due more than 12 months after delivery or when payment terms are significantly beyond the Company s standard business practice, the license is deemed not to be fixed or determinable. For software license arrangements in which the fee is not considered fixed or determinable, the license is recognized as revenue as payments become due and payable, provided all other conditions for revenue recognition have been met. For software license arrangements in which the Company has concluded that collection of the fees is not probable, revenue is recognized as cash is collected, provided all other conditions for revenue recognition have been met. In making the determination of collectability, the Company considers the creditworthiness of the customer, economic conditions in the customer s industry and geographic location, and general economic conditions.

ASC 985-605 requires the seller of software that includes PCS to establish VSOE of fair value of the undelivered element of the contract in order to account separately for the PCS revenue. The Company has traditionally established VSOE of the fair value of PCS by reference to stated renewals, expressed in dollar terms, or separate sales with consistent pricing of PCS expressed in percentage terms. In determining whether a stated renewal is not substantive, the Company considers factors such as whether the period of the initial PCS term is relatively long when compared to the term of the software license or whether the PCS renewal rate is significantly below the Company s normal pricing practices. In determining whether PCS pricing is consistent, the Company considers the population of separate sales that are within a reasonably narrow range of the median within the identified market segment over the trailing 12 month period.

For those software license arrangements that include customer-specific acceptance provisions, such provisions are generally presumed to be substantive and the Company does not recognize revenue until the earlier of the receipt of a written customer acceptance, objective demonstration that the delivered product meets the customer-specific acceptance criteria or the expiration of the acceptance period. The Company recognizes revenues on such arrangements upon the earlier of receipt of written acceptance or the first production use of the software by the customer. In the absence of customer-specific acceptance provisions, software license arrangements generally grant customers a right of refund or replacement only if the licensed software does not perform in accordance with its published specifications. If the Company s product history supports an assessment by management that the likelihood of non-acceptance is remote, the Company recognizes revenue when all other criteria of revenue recognition are met.

For software license arrangements in which the Company acts as a sales agent for another company s products, revenues are recorded on a net basis. These include arrangements in which the Company does not take title to the products, is not responsible for providing the product or service, earns a fixed commission, or assumes credit risk only to the extent of its commission. For software license arrangements in which the Company acts as a distributor of another company s product, and in certain circumstances, modifies or enhances the product, revenues are recorded on a gross basis. These include arrangements in which the Company takes title to the products and is responsible for providing the product or service.

For software license arrangements in which the Company utilizes a third-party distributor or sales agent, the Company recognizes revenue on a sell-in basis when business practices and operating history indicate that there is no risk of returns, rebates, or credits and there are no other risks related to the distributor or sales agents ability to honor payment or distribution commitments. For other arrangements in which any of the above factors indicate that there are risks of returns, rebates, or credits or any other risks related to the distributor or sales agents ability to honor payment or distribution commitments, the Company recognizes revenue on a sell-through basis.

For software license arrangements in which the Company permits the customer to receive unspecified future software products during the software license term, the Company recognizes revenue ratably over the license term, provided all other revenue recognition criteria have been met. For software license arrangements in which the Company grants the customer a right to exchange the original software product for specified future software products with more than minimal differences in features, functionality, and/or price, during the license term, revenue is recognized upon the earlier of delivery of the additional software products or at the time the exchange right lapses. For customers granted a right to exchange the original software product for specified future software products where the Company has determined price, feature, and functionality differences are minimal, the exchange right is accounted for as a like-kind exchange and revenue is recognized upon delivery of the currently licensed product. For software license arrangements in which the customer is charged variable license fees based on usage of the product, the Company recognizes revenue as usage occurs over the term of the licenses, provided all other revenue recognition criteria have been met.

Effective July 2013, the Company establishes VSOE of fair value of PCS by reference to stated renewals for all identified marked segments. The Company continues to consider factors such as whether the period of the initial PCS term is relatively long when compared to the term of the software license or whether the PCS renewal is significantly below the Company s normal pricing practices. In determining whether PCS pricing is significantly below the Company s normal pricing practice, the Company considers the population of stated renewal rates that are within a reasonably narrow range of the median within the identified market segment over the trailing 12 month period. The change in estimation methodology does not have a material effect on our financial statements.

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Certain of the Company s software license arrangements include PCS terms that fail to achieve VSOE of fair value 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 of 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, maintenance and services, if applicable.

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

	Years Ended December 31,		
	2013	2012	2011
Software license fees	$ 22,190	$ 38,226	$ 66,939
Maintenance fees	9,649	14,178	16,801
Services	10	830	1,362
Total	$ 31,849	$ 53,234	$ 85,102

Maintenance. The Company typically enters into multi-year time-based software license arrangements that vary in length but are generally five years. These arrangements include an initial (bundled) PCS term of one year with subsequent renewals for additional years within the initial license period. Effective July 2013, the Company establishes VSOE of the fair value of PCS by reference to stated renewals for all identified market segments. For arrangements in which the Company looks to substantive renewal rates to evidence VSOE of fair value of PCS and in which the PCS renewal rate and term are substantive, VSOE of fair value of PCS is determined by reference to the stated renewal rate. For these arrangements, PCS revenues are recognized ratably over the PCS term specified in the contract. In arrangements where VSOE of fair value of PCS cannot be determined (for example, a time-based software license with a duration of one year or less or when the range of possible PCS renewal amounts is not sufficiently narrow or is significantly below the Company s normal pricing practices), the Company recognizes revenue for the entire arrangement ratably over the longer of the initial PCS term or the Services term (if any).

For those arrangements that meet the criteria to be accounted for under contract accounting, the Company determines whether VSOE of fair value exists for the PCS element. For those arrangements in which VSOE of fair value exists for the PCS element, PCS is accounted for separately and the balance of the arrangement is accounted for under ASC 985-605. For those arrangements in which VSOE of fair value does not exist for the PCS element all revenue is deferred until such time as the services are complete. Once services are complete, revenue is then recognized ratably over the remaining PCS period.

Services. The Company provides various professional services to customers, primarily project management, software implementation and software modification services. Revenues from arrangements to provide professional services are generally recognized as the related services are performed.

For those arrangements in which services revenue is deferred and the Company determines that the direct costs of services are recoverable, such costs are deferred and subsequently expensed in proportion to the related services revenue as it is recognized. For those arrangements that are accounted for under contract accounting, the Company accumulates and defers all direct and indirect costs allocable to the arrangement. For those arrangements that are not accounted for under contract accounting, the Company accumulates and defers all direct and incremental costs attributable to the arrangement.

Hosting. Effective January 1, 2011, the Company adopted on a prospective basis for all new or materially modified arrangements entered into on or after that date, the amended accounting guidance for multiple-deliverable revenue arrangements and the amended guidance related to the scope of existing software revenue recognition guidance. The adoption of this guidance did not have a material impact on the Company s consolidated financial statements, nor does the Company expect it to have a material impact on its future financial statements.

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A multiple-deliverable arrangement is separated into more than one unit of accounting if the delivered item(s) has value to the customer on a stand-alone basis; if the arrangement includes a general right of return relative to the delivered item(s); and if delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company. If these criteria are not met, the arrangement is accounted for as a single unit of accounting which would result in revenue being recognized ratably over the contract term or being deferred until the earlier of when such criteria are met or when the last undelivered element is delivered. If these criteria are met for each, the arrangement consideration is allocated to the separate units of accounting based on each unit s relative selling price. The selling price for each element is based upon the following selling price hierarchy: VSOE if available, third party evidence (TPE) if VSOE is not available, or estimated selling price if neither VSOE nor TPE is available.

The Company enters into hosting-related arrangements that may consist of multiple service deliverables including initial implementation and setup services, on-going support services, and other services. The Company s hosted products operate in a highly regulated and controlled environment which requires a highly specialized and unique set of initial implementation and setup services prior to the commencement of hosting-related services. Due to the essential and specialized nature of the implementation and setup services, these services do not qualify as separate units of accounting separate from the hosting service as the delivered services do not have value to the customer on a stand-alone basis. The on-going support and other services are considered as separate units of accounting as are add-on products that do not impact the availability of functionality currently in use. The total arrangement consideration is allocated to each of the separate units of accounting based on their relative selling price and revenue is recognized over their respective service periods. As the support and other services periods are the same as the hosting service period, the recognition pattern is similar to what was experienced prior to adopting the amended accounting guidance for multiple-deliverable revenue arrangements.

Hosting revenue also includes fees paid by our clients as a part of the acquired electronic bill presentment and payment products. Fees may be paid by our clients or directly by their customers and may be a percentage of the underlying transaction amount, a fixed fee per executed transaction or a monthly fee for each customer enrolled. Hosting costs include payment card interchange fees, assessments payable to banks and payment card processing fees.

Multiple Arrangements. The Company may execute more than one contract or agreement with a single customer. The separate contracts or agreements may be viewed as one multiple-element arrangement or separate agreements for revenue recognition purposes. The Company evaluates whether the agreements were negotiated as part of a single project, whether the products or services are interrelated or interdependent, whether fees in one arrangement are tied to performance in another arrangement, and whether elements in one arrangement are essential to the functionality in another arrangement in order to reach appropriate conclusions regarding whether such arrangements are related or separate. The conclusions reached can impact the timing of revenue recognition related to those arrangements.

Deferred Revenue. Deferred revenue includes amounts currently due and payable from customers, and payments received from customers, for software licenses, maintenance, hosting and/or services in advance of recording the related revenue.

Receivables and Concentration of Credit Risk. Receivables represent amounts billed and amounts earned that are to be billed in the near future. Included in accrued receivables are services and software hosting revenues earned in the current period but billed in the following period as well as license revenues that are determined to be fixed and determinable but billed in future periods.

December 31,

	2013	2012
Billed Receivables	$ 173,100	$ 184,430
Allowance for doubtful accounts	(4,459)	(8,117)
Billed, net	168,641	176,313
Accrued Receivables	34,934	41,008
Receivables, net	$ 203,575	$ 217,321

No customer accounted for more than 10% of the Company s consolidated receivables balance as of December 31, 2013 or 2012.

The Company maintains a general allowance for doubtful accounts based on historical experience, along with additional customer-specific allowances. The Company regularly monitors credit risk exposures in accounts receivable. In estimating the necessary level of our allowance for doubtful accounts, management considers the aging of accounts receivable, the creditworthiness of customers, economic conditions within the customer s industry, and general economic conditions, among other factors.

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The following reflects activity in the Company s allowance for doubtful accounts receivable (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Balance, beginning of period	$ (8,117)	$ (4,843)	$ (5,738)
Provision (increases) decreases	1,161	(3,173)	101
Amounts written off, net of recoveries	2,296	35	516
Foreign currency translation adjustments	201	(136)	278
Balance, end of period	$ (4,459)	$ (8,117)	$ (4,843)

Provision (recovery) amounts recorded in general and administrative expenses during the years ended December 31, 2013, 2012 and 2011 reflect increases (decreases) in the allowance for doubtful accounts based upon collection experience in the geographic regions in which the Company conducts business, net of collection of customer-specific receivables which were previously reserved for as doubtful of collection.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company s cash and cash equivalents includes holdings in checking, savings, money market and overnight sweep accounts, all of which have daily maturities, as well as time deposits with maturities of three months or less at the date of purchase. The carrying amounts of cash and cash equivalents on the consolidated balance sheets approximate fair value.

Other Current Assets and Other Current Liabilities

	Years Ended December 31,	
	2013	2012
Settlement deposits	$ 27,770	$
Settlement receivables	20,119	
Current debt issuance costs	5,276	
Other	12,163	5,816
Total other current assets	$ 65,328	$ 5,816

	Years Ended December 31,	
	2013	2012
Settlement payables	$ 42,841	$
Accrued interest	7,074	92
Vendor financed licenses	6,410	5,217
Royalties payable	5,627	5,656
Other	33,064	25,435

Total other current liabilities	$ 95,016	$ 36,400

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 Settlement 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 December 31, 2013 was $284.0 million.

Property and Equipment

Property and equipment are stated at cost. Depreciation of these assets is generally computed using the straight-line method over their estimated useful lives based on asset class. As of December 31, 2013 and 2012, net property and equipment consisted of the following (in thousands):

	Useful Lives	2013	2012
Computer and office equipment	3 to 5 years	$ 72,163	$ 56,706
Leasehold improvements	Lesser of useful life of improvement or remaining life of lease	15,210	10,369
Furniture and fixtures	7 years	10,537	13,894
Building and improvements	7 30 years	5,869	4,082
Land	Non depreciable	1,336	1,185
		105,115	86,236
Less: accumulated depreciation and amortization		(47,768)	(44,950)
Property and equipment, net		$ 57,347	$ 41,286

Assets under capital leases are amortized over the shorter of the asset life or the lease term.

Software

Software may be for internal use or available for sale. Costs related to certain software, which is available for sale, are capitalized in accordance with ASC 985-20, *Costs of Software to be Sold, Leased, or Marketed*, when the resulting product reaches technological feasibility. The Company generally determines technological feasibility when it has a detailed program design that takes product function, feature and technical requirements to their most detailed, logical form and is ready for coding. The Company does not typically capitalize costs related to software available for sale as technological feasibility generally coincides with general availability of the software.

Amortization of software costs to be sold or marketed externally, begins when the product is available for licensing to customers and is determined on a product-by-product basis. The annual amortization shall be the greater of the amount computed using (a) the ratio of current gross revenues for a product to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product, including the period being reported on. Due to competitive pressures, it may be possible that the estimates of anticipated future gross revenue or remaining estimated economic life of the software product will be reduced significantly. As a result, the carrying amount of the software product may be reduced accordingly. Amortization of internal-use software is generally computed using the straight-line method over estimated useful lives of three to ten years.

Business Combinations

The Company applies the provisions of ASC 805, *Business Combinations*, in the accounting for its acquisitions. It requires the Company to recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, its estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, it records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of income.

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Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from customer relationships, covenants not to compete and acquired developed technologies, brand awareness and market position, as well as assumptions about the period of time the brand will continue to be used in our product portfolio, and discount rates. Management s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed, as more fully discussed in Note 2.

Goodwill and Other Intangibles

In accordance with ASC 350, *Intangibles Goodwill and Other*, the Company assesses goodwill for impairment at least annually. During this assessment management relies on a number of factors, including operating results, business plans and anticipated future cash flows. The Company assesses potential impairments to other intangible assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered.

In accordance with ASC 350, the Company assesses goodwill for impairment annually during the fourth quarter of its 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. The Company evaluates goodwill at the reporting unit level and has identified its reportable segments, Americas, Europe/Middle East/Africa (EMEA), and Asia/Pacific, as its reporting units. 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 key assumptions used in the discounted cash flow valuation model include discount rates, growth rates, cash flow projections and terminal value rates. Discount rates, growth rates and cash flow projections are the most sensitive and susceptible to change as they require significant management judgment. Discount rates are determined by using a weighted average cost of capital (WACC). The WACC considers market and industry data as well as Company-specific risk factors. Operational management, considering industry and Company-specific historical and projected data, develops growth rates and cash flow projections for each reporting unit. Terminal value rate determination follows common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant WACC and low long-term growth rates. If the calculated fair value is less than the current carrying value, impairment of the reporting unit may exist. If the recoverability test indicates potential impairment, the Company calculates an implied fair value of goodwill for the reporting unit. The implied fair value of goodwill is determined in a manner similar to how goodwill is calculated in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded to write down the carrying value. The calculated fair value substantially exceeded the current carrying value for all reporting units for all periods.

Changes in the carrying amount of goodwill attributable to each reporting unit with goodwill balances during the years ended December 31, 2013 and 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, December 31, 2011	151,166	43,612	19,366	214,144
Goodwill from acquisitions (1)	117,669	111,865	52,393	281,927
Foreign currency translation adjustments	(45)	3,176	1,939	5,070
Balance, December 31, 2012	268,790	158,653	73,698	501,141
Goodwill from acquisitions (2)	173,101		(832)	172,269
Foreign currency translation adjustments	(625)	1,505	(5,073)	(4,193)
Balance, December 31, 2013	$ 441,266	$ 160,158	$ 67,793	$ 669,217

(1) Addition relates to the goodwill acquired in the acquisitions of S1, North Data and Distra as discussed in Note 2.

(2) Addition relates to the goodwill acquired in the acquisitions of OPAY, ORCC, PTESA and Distra as discussed in Note 2. The purchase price allocation for all 2013 acquisitions are preliminary as of December 31, 2013 and accordingly are subject to future changes during the maximum one-year allocation period.

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Other intangible assets, which include customer relationships, purchased contracts, trademarks and trade names, and covenants not to compete, are amortized using the straight-line method over periods ranging from three years to 20 years. The Company reviews its intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset group may not be recoverable. An impairment loss is recorded if the sum of the future cash flows expected to result from the use of the asset (undiscounted and without interest charges) is less than the carrying amount of the asset. The amount of the impairment charge is measured based upon the fair value of the asset group.

Treasury Stock

The Company accounts for shares of its common stock that are repurchased without intent to retire as treasury stock. Such shares are recorded at cost and reflected separately on the consolidated balance sheets as a reduction of stockholders equity. The Company issues shares of treasury stock upon exercise of stock options, issuance of restricted share awards, payment of earned performance shares, and for issuances of common stock pursuant to the Company s employee stock purchase plan. For purposes of determining the cost of the treasury shares re-issued, the Company uses the average cost method.

Stock-Based Compensation Plans

In accordance with ASC 718, *Compensation Stock Compensation*, the Company recognizes stock-based compensation costs for only those shares expected to vest, on a straight-line basis over the requisite service period of the award, which is generally the vesting term. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount of expense recognized. Forfeiture estimates are revised, if necessary, in subsequent periods when actual forfeitures differ from those estimates. Share based compensation expense is recorded in operating expenses depending on where the respective individual s compensation is recorded. The Company generally utilizes the Black Scholes option pricing model to determine the fair value of stock options on the date of grant. The assumptions utilized in the Black-Scholes option-pricing model, as well as the description of the plans the stock-based awards are granted under, are described in further detail in Note 11, *Stock-Based Compensation Plans*.

Translation of Foreign Currencies

The Company s foreign subsidiaries typically use the local currency of the countries in which they are located as their functional currency. Their assets and liabilities are translated into United States dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average exchange rates during the period. Translation gains and losses are reflected in the consolidated financial statements as a component of accumulated other comprehensive income (loss). Transaction gains and losses, including those related to intercompany accounts, that are not considered to be of a long-term investment nature are included in the determination of net income. Transaction gains and losses, including those related to intercompany accounts, that are considered to be of a long-term investment nature are reflected in the consolidated financial statements as a component of accumulated other comprehensive income.

Since the undistributed earnings of the Company s foreign subsidiaries are considered to be indefinitely reinvested, the components of accumulated other comprehensive income have not been tax-effected.

Income Taxes

The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company periodically assesses its tax exposures and establishes, or adjusts, estimated unrecognized tax benefits for probable assessments by taxing authorities, including the Internal Revenue Service (IRS), and various foreign and state authorities. Such unrecognized tax benefits represent the estimated provision for income taxes expected to ultimately be paid.

Recently Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-2, *Comprehensive Income (Topic 220)* in the Accounting Standards Codifications (ASC). This update requires separate presentation of the components that are reclassified out of accumulated other comprehensive income either on the face of the financial statements or in the notes to the financial statements. This update also requires companies to disclose the income statement line items impacted by any significant reclassifications. These items are required for both interim and annual reporting for public companies and were adopted by the Company year ended December 31, 2013.

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* This update requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows: to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This update is effective for the Company in the first quarter of fiscal 2014 and should be applied prospectively with retroactive application permitted. The Company already discloses uncertain tax benefits in accordance with this standard update and no material change is expected.

2. Acquisitions

Fiscal 2013 Acquisitions

In 2013, the Company completed three acquisitions at an aggregate cost of $378.1 million.

Official Payments Holdings, Inc.

On November 5, 2013, the Company completed the tender offer for Official Payments Holdings, Inc. (OPAY) and all its subsidiaries. The Company paid cash of $8.35 per share of common stock or approximately $139.8 million using funds on hand and $40 million drawn on the Revolving Credit Facility, which was repaid prior to year-end. As a leading provider of electronic bill payment solutions in the U.S., serving federal, state and local governments, municipal utilities, higher education institutions and charitable giving organizations, OPAY s team, user base and vertical expertise make it an ideal match for the Company. The acquisition will further extend the Company s presence in the Electronic Bill Presentment and Payment (EBPP) space, expanding its portfolio across key sectors including federal, state and local governments, municipal utilities, higher education institutions and charitable giving organizations.

Each outstanding option to acquire OPAY common stock was canceled and terminated at the effective time of the acquisition and converted into the right to receive cash with respect to the number of shares of OPAY common stock that would have been issuable upon a net exercise of such option, assuming the market value of the OPAY common stock at the time of such exercise was equal to the $8.35 per common stock tender offer. 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 OPAY restricted stock unit award outstanding immediately prior to the effective time of the tender offer was fully vested and cancelled, and each holder of such awards became entitled to receive the $8.35 per common stock tender offer for each share of OPAY common stock into which the vested portion of the awards would otherwise have been converted.

The Company incurred approximately $1.2 million in transaction related expenses during the year ended December 31, 2013, including fees to the investment bank, legal and other professional fees, which are included in general and administrative expenses in the accompanying consolidated statement of income.

OPAY contributed approximately $23.3 million in revenue and a less than $0.1 million in operating losses for the year ended December 31, 2013, which includes severance expense related to the integration activities.

The consideration paid by the Company to complete the acquisition of OPAY 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, property, intangible assets, and certain tax matters. 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 technology personnel with the skills to market new and existing products of the Company, enhanced product capabilities, complementary products and customers.

Online Resources Corporation

On March 11, 2013, the Company completed the tender offer for Online Resources Corporation (ORCC) and all its subsidiaries. The Company paid cash of $3.85 per share of common stock for approximately $132.9 million and $127.2 million for the Series A-1 Convertible Preferred Stock for a total purchase price of $260.1 million (the Merger). The Company has included the financial results of ORCC in the consolidated financial statements from the date of acquisition. As a leading provider of online banking and full service bill pay solutions, the acquisition of ORCC adds EBPP solutions as a strategic part of ACI s Universal Payments portfolio. It also strengthens the Company s online banking capabilities with complementary technology, and expands the Company s leadership in serving community banking and credit union customers.

Each outstanding option to acquire ORCC common stock was canceled and terminated at the effective time of the Merger and converted into the right to receive an equivalent number of options to purchase ACI common stock. Each ORCC restricted stock unit was vested immediately prior to the effective time of the Merger and received $3.85 per share.

The Company used funds from the $300.0 million of senior bank financing arranged through Wells Fargo Securities, LLC to fund the acquisition. See Note 4, *Debt*, for terms of the financing arrangement.

The Company incurred approximately $5.4 million in transaction related expenses during the twelve months ended December 31, 2013, including fees to the investment bank, legal and other professional fees, which are included in general and administrative expenses in the accompanying statement of income.

ORCC contributed approximately $120.8 million in revenue and $6.4 million in operating income for the year ended December 31, 2013, which includes severance expense related to the integration activities.

The consideration paid by the Company to complete the Merger 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.

The Company made adjustments to the preliminary purchase price allocation as additional information became available to deferred income taxes, property and equipment, software, accounts payable, 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 product capabilities, complementary products and customers.

Profesionales en Transacciones Electronicas S.A.

During the first quarter of 2013, the Company acquired 100% of Profesionales en Transacciones Electronicas S.A. Venezuela (PTESA-V), 100% of Profesionales en Transacciones Electronicas S.A. Ecuador (PTESA-E), and the ACI related assets of Profesionales en Transacciones Electronicas S.A. Colombia (PTESA-C), collectively PTESA . The common stock of PTESA-E and PTESA-V were acquired for $2.8 million and the assets of PTESA-C were acquired for $11.4 million, for a total aggregate purchase price of $14.2 million paid in cash. The Company has included the financial results of PTESA in our consolidated financial statements from the date of acquisition. PTESA has been a long-term partner of the Company, serving customers in South America in sales, service and support functions. The addition of the PTESA team to the Company reinforces its commitment to serve the Latin American market.

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Factors contributing to the purchase price that resulted in the goodwill (approximately $1.5 million of 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.

In connection with the acquisitions, the Company recorded the following amounts based upon its preliminary purchase price allocations during the year ended December 31, 2013, which are subject to completion of valuations and other analyses (in thousands, except weighted-average useful lives):

	Weighted-Average Useful Lives	Official Payments Holdings, Inc.	Online Resourses Corporation	PTESA
Current assets:				
Cash and cash equivalents		$ 25,871	$ 9,930	$ 193
Billed and accrued receivables, net		2,858	19,394	327
Deferred income taxes, net		2,644	11,222	
Other current assets		27,766	17,663	87
Total current assets acquired		59,139	58,209	607
Noncurrent assets:				
Property and equipment		8,141	7,335	6
Goodwill		43,512	122,469	7,120
Software	10 years	20,000	62,215	7,732
Customer relationships	14 -15 years	47,500	68,750	
Trademarks	3 -5 years	5,065	3,050	
Other noncurrent assets		6,791	2,058	7
Total assets acquired		190,148	324,086	15,472
Current liabilities:				
Accounts payable		8,572	15,393	341
Accrued employee compensation		14,905	10,549	261
Note payable			7,500	
Other current liabilities		26,061	7,259	
Total current liabilities acquired		49,538	40,701	602
Noncurrent liabilities:				
Deferred income taxes, net			19,814	225
Other noncurrent liabilities acquired		828	3,453	439

Total liabilities acquired	50,366	63,968	1,266
Net assets acquired	$ 139,782	$ 260,118	$ 14,206

Fiscal 2012 Acquisition

In 2012, the Company completed three acquisitions at an aggregate cost of $641.7 million.

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Distra Pty Ltd

On September 18, 2012, the Company closed the acquisition of 100% of Distra Pty Ltd (Distra). The Company has included the financial results of Distra in our consolidated financial statements from the date of acquisition. 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 was $49.8 million and was paid with existing cash balances. The consideration paid by the Company to complete the acquisition has been allocated 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 been completed as of the date of this filing.

The Company made final adjustments to the preliminary purchase price allocation as additional information became available to deferred income taxes and other current 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, 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.

North Data Uruguay S.A.

On May 24, 2012, the Company closed the acquisition of North Data Uruguay S.A. 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 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 a weighted-average useful life of 12.6 years.

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 has created a leader in the global enterprise payments industry. The combined company has 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.

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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 year ended December 31, 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 4, *Debt*, for terms of the financing arrangement.

The consideration paid by the Company to complete the acquisition has been allocated to the assets acquired and liabilities assumed based upon their estimated fair values as of the date of the acquisition.

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 year ended December 31, 2012, including fees to the investment bank, legal and other professional fees, which are included in general and administrative expenses in the accompanying consolidated statement of income.

The Company has included the financial results of S1 in its consolidated financial statements from the date of acquisition. S1 contributed an estimated $161.9 million in revenue during the year ended December 31, 2012. S1 had an estimated $6.9 million in operating losses for the year ended December 31, 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.

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.

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In connection with the acquisitions, the Company recorded the following amounts based upon its purchase price allocations during the year ended December 31, 2013 (in thousands, except weighted-average useful lives):

	Weighted-Average Useful Lives	S1 Corporation	Distra Pty Ltd
Current assets:			
Cash and cash equivalents		$ 97,748	$ 2
Billed and accrued receivables, net		65,329	338
Other current assets		16,791	1,152
Total current assets acquired		179,868	1,492
Noncurrent assets:			
Property and equipment		18,440	96
Goodwill		256,244	21,307
Software	5 - 10 years	87,517	18,802
Customer relationships	10 -20 years	108,690	6,200
Trademarks	3 years	4,500	
Covenant not to compete	3 years	360	
Deferred income tax		40,634	12,331
Other noncurrent assets		11,004	
Total assets acquired		707,257	60,228
Current liabilities:			
Deferred revenue		34,671	320
Accrued employee compensation		34,689	1,205
Other current liabilities		28,387	736
Total current liabilities acquired		97,747	2,261
Noncurrent liabilities:			
Deferred income tax		15,795	8,217
Other noncurrent liabilities acquired		6,431	
Total liabilities acquired		119,973	10,478
Net assets acquired		$ 587,284	$ 49,750

The pro forma financial information in the table below presents the combined results of operations for the Company, OPAY and ORCC as if the acquisitions had occurred January 1, 2012 and S1 as if the acquisition had occurred on 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 for the years ended December 31, 2013, 2012 and 2011 to give effect to estimated adjustments to expenses to remove the amortization on eliminated OPAY, ORCC and S1 historical identifiable intangible assets and added amortization expense for the value of identified intangibles acquired in the acquisitions (primarily acquired software, customer relationships, trade names, and covenants not to compete), adjustments to interest expense to reflect the elimination of preexisting OPAY, ORCC and S1 debt and added estimated interest expense on the Company s additional Term Credit Facility and Revolving Credit Facility borrowings and to eliminate share-based compensation expense for eliminated positions. Additionally, certain transaction expenses that are a direct result of the acquisitions have been excluded from the years ended December 31, 2013, 2012 and 2011.

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	Pro Forma Results of Operations for the Year Ended December 31,		
	2013	2012	2011
Total Revenues	$ 1,027,422	$ 1,017,681	$ 722,210
Net Income	78,002	64,443	46,221
Income per share			
Basic	$ 1.99	$ 1.67	$ 1.18
Diluted	$ 1.95	$ 1.61	$ 1.15

3. Software and Other Intangible Assets

At December 31, 2013, software net book value totaled $191.5 million, net of $95.3 million of accumulated amortization. Included in this amount is software marketed for external sale of $94.0 million. The remaining software net book value of $97.5 million is comprised of various software that has been acquired or developed for internal use.

At December 31, 2012, software net book value totaled $129.3 million, net of $69.4 million of accumulated amortization. Included in this amount is software marketed for external sale of $100.4 million. The remaining software net book value of $28.9 million is comprised of various software that has been acquired or developed for internal use.

Amortization of acquired software marketed for external sale is computed using the greater of the ratio of current revenues to total current and anticipated revenues expected to be derived from the software or the straight-line method over an estimated useful life of generally three to ten years. Software for resale amortization expense recorded during the years ended December 31, 2013, 2012 and 2011 totaled $13.6 million, $13.8 million, and $6.3 million, respectively. These software amortization expense amounts are reflected in cost of license in the consolidated statements of income.

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 amortization expense recorded during the years ended December 31, 2013, 2012 and 2011 totaled $19.1 million, $11.6 million, and $8.1 million, respectively. These software amortization expense amounts are reflected in depreciation and amortization in the consolidated statements of income.

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):

	December 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance
Customer relationships	$ 277,356	$ (49,410)	$ 227,946	$ 157,364	$ (33,727)	$ 123,637
Purchased contracts	10,865	(10,865)		10,823	(10,549)	274
Trademarks and tradenames	13,995	(4,383)	9,612	5,830	(2,096)	3,734
Covenant not to compete	438	(303)	135	442	(187)	255
	$ 302,654	$ (64,961)				