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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2021  
Or

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

For the transition period from to  
Commission File Number 0-25346

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**ACI WORLDWIDE, INC.**

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of incorporation or organization)

600 Brickell Avenue Suite 1500, PMB #11 Miami, Florida

(Address of principal executive offices)

47-0772104

(I.R.S. Employer Identification No.)

33131

(Zip code)

(305) 894-2200

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of November 2, 2021, there were 117,566,450 shares of the registrant's common stock outstanding.

**Securities registered or to be registered pursuant to Section 12(b) of the Act.**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.005 par value	ACIW	Nasdaq Global Select Market

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**PART I - FINANCIAL INFORMATION**
**ITEM 1. FINANCIAL STATEMENTS**

**ACI WORLDWIDE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(unaudited and in thousands, except share and per share amounts)

	September 30, 2021	December 31, 2020
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 141,482	\$ 165,374
Receivables, net of allowances of \$2,544 and \$3,912, respectively	299,336	342,879
Settlement assets	510,477	605,008
Prepaid expenses	29,820	24,288
Other current assets	30,420	17,365
<b>Total current assets</b>	<b>1,011,535</b>	<b>1,154,914</b>
<b>Noncurrent assets</b>		
Accrued receivables, net	196,676	215,772
Property and equipment, net	61,689	64,734
Operating lease right-of-use assets	49,438	41,243
Software, net	166,936	196,456
Goodwill	1,280,226	1,280,226
Intangible assets, net	292,659	321,983
Deferred income taxes, net	64,775	57,476
Other noncurrent assets	60,556	54,099
<b>TOTAL ASSETS</b>	<b>\$ 3,184,490</b>	<b>\$ 3,386,903</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 35,318	\$ 41,223
Settlement liabilities	512,980	604,096
Employee compensation	46,689	48,560
Current portion of long-term debt	40,967	34,265
Deferred revenue	105,725	95,849
Other current liabilities	61,806	81,612
<b>Total current liabilities</b>	<b>803,485</b>	<b>905,605</b>
<b>Noncurrent liabilities</b>		
Deferred revenue	32,912	33,564
Long-term debt	1,033,353	1,120,742
Deferred income taxes, net	31,951	40,504
Operating lease liabilities	45,354	39,958
Other noncurrent liabilities	41,881	39,933
<b>Total liabilities</b>	<b>1,988,936</b>	<b>2,180,306</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity</b>		
Preferred stock; \$0.01 par value; 5,000,000 shares authorized; no shares issued at September 30, 2021, and December 31, 2020	—	—
Common stock; \$0.005 par value; 280,000,000 shares authorized; 140,525,055 shares issued at September 30, 2021, and December 31, 2020	702	702
Additional paid-in capital	683,044	682,431
Retained earnings	1,021,810	1,003,490
Treasury stock, at cost, 22,994,595 and 23,412,870 shares at September 30, 2021, and December 31, 2020, respectively	(411,684)	(387,581)
Accumulated other comprehensive loss	(98,318)	(92,445)
<b>Total stockholders' equity</b>	<b>1,195,554</b>	<b>1,206,597</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 3,184,490</b>	<b>\$ 3,386,903</b>

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

**ACI WORLDWIDE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(unaudited and in thousands, except per share amounts)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>Revenues</b>				
Software as a service and platform as a service	\$ 191,456	\$ 190,369	\$ 583,530	\$ 563,892
License	54,454	56,773	110,383	135,038
Maintenance	53,519	53,049	159,037	159,078
Services	17,485	15,692	50,819	49,270
<b>Total revenues</b>	<b>316,914</b>	<b>315,883</b>	<b>903,769</b>	<b>907,278</b>
<b>Operating expenses</b>				
Cost of revenue <sup>(1)</sup>	158,712	158,579	476,811	471,762
Research and development	35,248	33,573	104,791	108,175
Selling and marketing	33,413	22,154	90,211	76,692
General and administrative	29,717	37,000	89,429	102,684
Depreciation and amortization	31,845	33,395	95,434	98,928
<b>Total operating expenses</b>	<b>288,935</b>	<b>284,701</b>	<b>856,676</b>	<b>858,241</b>
<b>Operating income</b>	<b>27,979</b>	<b>31,182</b>	<b>47,093</b>	<b>49,037</b>
<b>Other income (expense)</b>				
Interest expense	(11,208)	(12,925)	(33,943)	(44,238)
Interest income	2,834	2,927	8,553	8,781
Other, net	(1,088)	1,356	(1,036)	(6,361)
<b>Total other income (expense)</b>	<b>(9,462)</b>	<b>(8,642)</b>	<b>(26,426)</b>	<b>(41,818)</b>
<b>Income before income taxes</b>	<b>18,517</b>	<b>22,540</b>	<b>20,667</b>	<b>7,219</b>
Income tax expense	4,753	6,674	2,347	1,705
<b>Net income</b>	<b>\$ 13,764</b>	<b>\$ 15,866</b>	<b>\$ 18,320</b>	<b>\$ 5,514</b>
<b>Income per common share</b>				
Basic	\$ 0.12	\$ 0.14	\$ 0.16	\$ 0.05
Diluted	\$ 0.12	\$ 0.13	\$ 0.15	\$ 0.05
<b>Weighted average common shares outstanding</b>				
Basic	117,512	116,558	117,574	116,217
Diluted	118,540	117,804	118,817	117,644

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

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

**ACI WORLDWIDE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(unaudited and in thousands)**

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
<b>Net income</b>	\$ 13,764	\$ 15,866	\$ 18,320	\$ 5,514
<b>Other comprehensive income (loss):</b>				
Foreign currency translation adjustments	(4,223)	1,842	(5,873)	(4,909)
<b>Total other comprehensive income (loss)</b>	(4,223)	1,842	(5,873)	(4,909)
<b>Comprehensive income</b>	<u>\$ 9,541</u>	<u>\$ 17,708</u>	<u>\$ 12,447</u>	<u>\$ 605</u>

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

**ACI WORLDWIDE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(unaudited and in thousands)

**Three Months Ended September 30, 2021**

	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Treasury Stock</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total</b>
<b>Balance as of June 30, 2021</b>	\$ 702	\$ 676,399	\$ 1,008,046	\$ (412,492)	\$ (94,095)	\$ 1,178,560
Net income	—	—	13,764	—	—	13,764
Other comprehensive loss	—	—	—	—	(4,223)	(4,223)
Stock-based compensation	—	6,367	—	—	—	6,367
Shares issued and forfeited, net, under stock plans	—	278	—	845	—	1,123
Repurchase of stock-based compensation awards for tax withholdings	—	—	—	(37)	—	(37)
<b>Balance as of September 30, 2021</b>	<u>\$ 702</u>	<u>\$ 683,044</u>	<u>\$ 1,021,810</u>	<u>\$ (411,684)</u>	<u>\$ (98,318)</u>	<u>\$ 1,195,554</u>

**Three Months Ended September 30, 2020**

	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Treasury Stock</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total</b>
<b>Balance as of June 30, 2020</b>	\$ 702	\$ 667,554	\$ 920,478	\$ (399,663)	\$ (98,334)	\$ 1,090,737
Net income	—	—	15,866	—	—	15,866
Other comprehensive income	—	—	—	—	1,842	1,842
Stock-based compensation	—	8,061	—	—	—	8,061
Shares issued and forfeited, net, under stock plans	—	326	—	6,038	—	6,364
Repurchase of stock-based compensation awards for tax withholdings	—	—	—	(26)	—	(26)
<b>Balance as of September 30, 2020</b>	<u>\$ 702</u>	<u>\$ 675,941</u>	<u>\$ 936,344</u>	<u>\$ (393,651)</u>	<u>\$ (96,492)</u>	<u>\$ 1,122,844</u>

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

**ACI WORLDWIDE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(unaudited and in thousands, except share amounts)

Nine Months Ended September 30, 2021						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
<b>Balance as of December 31, 2020</b>	\$ 702	\$ 682,431	\$ 1,003,490	\$ (387,581)	\$ (92,445)	\$ 1,206,597
Net income	—	—	18,320	—	—	18,320
Other comprehensive loss	—	—	—	—	(5,873)	(5,873)
Stock-based compensation	—	20,790	—	—	—	20,790
Shares issued and forfeited, net, under stock plans	—	(20,177)	—	30,141	—	9,964
Repurchase of 1,000,000 shares of common stock	—	—	—	(39,411)	—	(39,411)
Repurchase of stock-based compensation awards for tax withholdings	—	—	—	(14,833)	—	(14,833)
<b>Balance as of September 30, 2021</b>	<u>\$ 702</u>	<u>\$ 683,044</u>	<u>\$ 1,021,810</u>	<u>\$ (411,684)</u>	<u>\$ (98,318)</u>	<u>\$ 1,195,554</u>

Nine Months Ended September 30, 2020						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
<b>Balance as of December 31, 2019</b>	\$ 702	\$ 667,658	\$ 930,830	\$ (377,639)	\$ (91,583)	\$ 1,129,968
Net income	—	—	5,514	—	—	5,514
Other comprehensive loss	—	—	—	—	(4,909)	(4,909)
Stock-based compensation	—	22,943	—	—	—	22,943
Shares issued and forfeited, net, under stock plans	—	(14,660)	—	24,019	—	9,359
Repurchase of 1,000,000 shares of common stock	—	—	—	(28,881)	—	(28,881)
Repurchase of stock-based compensation awards for tax withholdings	—	—	—	(11,150)	—	(11,150)
<b>Balance as of September 30, 2020</b>	<u>\$ 702</u>	<u>\$ 675,941</u>	<u>\$ 936,344</u>	<u>\$ (393,651)</u>	<u>\$ (96,492)</u>	<u>\$ 1,122,844</u>

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

**ACI WORLDWIDE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited and in thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 18,320	\$ 5,514
<b>Adjustments to reconcile net income to net cash flows from operating activities:</b>		
Depreciation	15,838	18,012
Amortization	84,528	86,992
Amortization of operating lease right-of-use assets	7,752	14,145
Amortization of deferred debt issuance costs	3,525	3,613
Deferred income taxes	(11,742)	(10,540)
Stock-based compensation expense	20,790	22,943
Other	(27)	4,339
<b>Changes in operating assets and liabilities:</b>		
Receivables	55,953	41,261
Accounts payable	(5,080)	1,680
Accrued employee compensation	(1,140)	13,585
Deferred revenue	10,339	14,361
Other current and noncurrent assets and liabilities	(51,158)	(23,847)
Net cash flows from operating activities	<u>147,898</u>	<u>192,058</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(12,968)	(14,091)
Purchases of software and distribution rights	(20,041)	(21,556)
Net cash flows from investing activities	<u>(33,009)</u>	<u>(35,647)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	2,526	2,853
Proceeds from exercises of stock options	7,252	6,518
Repurchase of stock-based compensation awards for tax withholdings	(14,833)	(11,150)
Repurchases of common stock	(39,411)	(28,881)
Proceeds from revolving credit facility	—	30,000
Repayment of revolving credit facility	(55,000)	(109,000)
Repayment of term portion of credit agreement	(29,212)	(29,212)
Payments on or proceeds from other debt, net	(10,187)	(10,044)
Net cash flows from financing activities	<u>(138,865)</u>	<u>(148,916)</u>
Effect of exchange rate fluctuations on cash	84	4,952
Net increase (decrease) in cash and cash equivalents	<u>(23,892)</u>	<u>12,447</u>
Cash and cash equivalents, beginning of period	165,374	121,398
Cash and cash equivalents, end of period	<u>\$ 141,482</u>	<u>\$ 133,845</u>
<b>Supplemental cash flow information</b>		
Income taxes paid	\$ 28,131	\$ 19,733
Interest paid	\$ 35,966	\$ 46,489

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



**ACI WORLDWIDE, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**1. Condensed Consolidated Financial Statements**

The unaudited condensed consolidated financial statements include the accounts of ACI Worldwide, Inc. and its wholly-owned subsidiaries (collectively, the "Company"). All intercompany balances and transactions have been eliminated. The condensed consolidated financial statements as of September 30, 2021, and for the three and nine months ended September 30, 2021 and 2020, are unaudited and reflect all adjustments of a normal recurring nature, which are, in the opinion of management, necessary for a fair presentation, in all material respects, of the financial position and operating results for the interim periods. The condensed consolidated balance sheet as of December 31, 2020, is derived from the audited financial statements.

The condensed consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2020, filed on February 25, 2021. Results for the three and nine months ended September 30, 2021, are not necessarily indicative of results that may be attained in the future.

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

*Risks and Uncertainties*

The Company is subject to risks and uncertainties as a result of the COVID-19 pandemic that began in early 2020. The COVID-19 pandemic, and the measures imposed by the governments of various countries, states, cities, and other geographic regions to prevent its spread, have negatively impacted global economic and market conditions, including levels of consumer and business spending. The extent of the impact of the COVID-19 pandemic on the Company's business is highly uncertain and difficult to predict, as vaccination rates vary by geography, new variants spread, and the response to the pandemic and available information continues to be evolving. The Company has experienced changes in volumes for certain Merchant and Biller customers and has received limited requests for extended payment terms under existing contracts. Continuing economic disruptions could have a material adverse effect on our business as our customers curtail and reduce capital and overall spending.

The severity of the impact of the COVID-19 pandemic on the Company's business will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Company's customers, all of which are uncertain and cannot be predicted. The Company's future results of operations and liquidity could be adversely impacted by delays in payments of outstanding receivable amounts beyond normal payment terms, uncertain demand, and the impact of any initiatives or programs that the Company may undertake to address financial and operations challenges faced by its customers. As of the date of issuance of these condensed consolidated financial statements, the extent to which the COVID-19 pandemic may materially impact the Company's financial condition, liquidity, or results of operations is uncertain.

*Other Current Liabilities*

The components of other current liabilities are included in the following table (in thousands):

	September 30, 2021	December 31, 2020
Vendor financed licenses	\$ 9,776	\$ 12,901
Operating lease liabilities	11,214	13,438
Royalties payable	4,897	3,959
Accrued interest	2,983	8,745
Other	32,936	42,569
Total other current liabilities	<u>\$ 61,806</u>	<u>\$ 81,612</u>

### *Leases*

The Company's operating leases are included in operating lease right-of-use assets, other current liabilities, and operating lease liabilities. During the nine months ended September 30, 2021, the new corporate headquarters operating lease commenced. In recognition of this lease, an operating lease right of use asset of \$12.9 million and an operating lease liability of \$15.2 million was incurred. These amounts, less amortization and payments to date, are included within operating lease right-of-use assets and other current liabilities and operating lease liabilities in the condensed consolidated balance sheet as of September 30, 2021.

### *Settlement Assets and Liabilities*

Individuals and businesses settle their obligations to the Company's various Biller clients using credit or debit cards or via automated clearing house ("ACH") payments. The Company creates a receivable for the amount due from the credit or debit card processor and an offsetting payable to the client. Upon confirmation that the funds have been received, the Company settles the obligation to the client. Due to timing, in some instances, the Company may (1) 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 and (2) disburse funds to its clients in advance of receiving funds from the credit or debit card processor, resulting in a net settlement receivable position.

### *Off Balance Sheet Settlement Accounts*

The Company also enters into agreements with certain Biller clients to process payment funds on their behalf. When an ACH 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, these 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 September 30, 2021, and December 31, 2020, was \$196.0 million and \$246.8 million, respectively.

### *Fair Value*

The fair value of the Company's Credit Agreement approximates the carrying value due to the floating interest rate (Level 2 of the fair value hierarchy). The Company measures the fair value of its Senior Notes based on Level 2 inputs, which include quoted market prices and interest rate spreads of similar securities. The fair value of the Company's 5.750% Senior Notes due 2026 ("2026 Notes") was \$420.0 million and \$424.5 million as of September 30, 2021, and December 31, 2020, respectively.

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

### *Goodwill*

In accordance with the Accounting Standards Codification ("ASC") 350, *Intangibles – Goodwill and Other*, 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 had previously identified ACI On Demand and ACI On Premise, the operating segments at the time, as the reporting units. As of September 30, 2021, the Company's goodwill balance of \$1.3 billion was allocated to these two reporting units, with \$554.3 million allocated to ACI On Demand and \$725.9 million allocated to ACI On Premise.

Recoverability of goodwill is measured using a discounted cash flow valuation model incorporating discount rates commensurate with the risks involved. Use of a discounted cash flow model is common practice in impairment testing in the absence of available transactional market evidence to determine the fair value. The calculated fair value was substantially in excess of the current carrying value for all reporting units based upon the October 1, 2020, annual impairment test. Given the adverse economic and market conditions caused by the COVID-19 pandemic, the Company considered a variety of qualitative factors to determine if an additional quantitative impairment test was required subsequent to our annual impairment test. Based on a variety of factors, including the excess of the fair value over the carrying amount in the most recent impairment test, we determined that an additional quantitative impairment test was not required.

As discussed in Note 9, *Segment Information*, during the first quarter of 2021, the Company made a change in organizational structure to better align with its strategic direction. This change in the Company's operating segments will also result in a change in reporting units. The Company is currently in the process of calculating the allocation of goodwill for the new reporting units, which are expected to coincide with the new operating segments - Banks, Merchants, and Billers, and will be completed prior to year-end.

#### *Equity Method Investment*

In July 2019, the Company invested \$18.3 million for a 30% non-controlling financial interest in a payment technology and services company in India. The Company accounted for this investment using the equity method in accordance with ASC 323, *Investments - Equity Method and Joint Ventures*. The Company records its share of earnings and losses in the investment on a one-quarter lag basis. Accordingly, the Company recorded an investment of \$19.0 million and \$19.3 million, which is included in other noncurrent assets in the condensed consolidated balance sheet as of September 30, 2021, and December 31, 2020, respectively.

#### *New Accounting Standards Recently Adopted*

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards update ("ASU") 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, as part of its initiative to reduce complexity in accounting standards. The amendments in this update simplify the accounting for income taxes by removing certain exceptions within ASC 740, *Income Taxes*, as well as clarify and simplify other aspects of the accounting for income taxes to promote consistency among reporting entities. ASU 2019-12 was effective for annual and interim periods beginning after December 15, 2020. The adoption of ASU 2019-12 did not have a material impact on the Company's condensed consolidated financial statements.

## **2. Revenue**

In accordance with ASC 606, *Revenue From Contracts With Customers*, revenue is recognized upon transfer of control of promised products and/or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products and services. Revenue is recognized net of any taxes collected from customers and subsequently remitted to governmental authorities. See Note 9, *Segment Information*, for additional information, including disaggregation of revenue based on primary solution category.

Total receivables represent amounts billed and amounts earned that are to be billed in the future (i.e., accrued receivables). Included in accrued receivables are services, software as a service ("SaaS"), and platform as a service ("PaaS") revenues earned in the current period but billed in the following period, and amounts due under multi-year software license arrangements with extended payment terms for which the Company has an unconditional right to invoice and receive payment subsequent to invoicing.

Total receivables, net is comprised of the following (in thousands):

	September 30, 2021	December 31, 2020
Billed receivables	\$ 147,247	\$ 179,177
Allowance for doubtful accounts	(2,544)	(3,912)
Billed receivables, net	144,703	175,265
Current accrued receivables, net	154,633	167,614
Long-term accrued receivables, net	196,676	215,772
Total accrued receivables, net	351,309	383,386
Total receivables, net	\$ 496,012	\$ 558,651

No customer accounted for more than 10% of the Company's consolidated receivables balance as of September 30, 2021, or December 31, 2020.

Deferred revenue includes amounts due or received from customers for software licenses, maintenance, services, and/or SaaS and PaaS services in advance of recording the related revenue.

Changes in deferred revenue were as follows (in thousands):

Balance, December 31, 2020	\$ 129,413
Deferral of revenue	112,008
Recognition of deferred revenue	(101,306)
Foreign currency translation	(1,478)
Balance, September 30, 2021	\$ 138,637

Revenue allocated to remaining performance obligations represents contracted revenue that will be recognized in future periods, which is comprised of deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. This does not include:

- Revenue that will be recognized in future periods from capacity overages that are accounted for as a usage-based royalty.
- SaaS and PaaS revenue from variable consideration that will be recognized in accordance with the 'right to invoice' practical expedient or meets the allocation objective.

Revenue allocated to remaining performance obligations was \$871.2 million as of September 30, 2021, of which the Company expects to recognize approximately 55% over the next 12 months and the remainder thereafter.

During the three and nine months ended September 30, 2021 and 2020, revenue recognized by the Company from performance obligations satisfied in previous periods was not significant.

### 3. Debt

As of September 30, 2021, the Company had \$687.9 million and \$400.0 million outstanding under its Term Loans and Senior Notes, respectively, with up to \$498.5 million of unused borrowings under the Revolving Credit Facility portion of the Credit Agreement, as amended, and up to \$1.5 million of unused borrowings under the Letter of Credit agreement. The amount of unused borrowings actually available varies in accordance with the terms of the agreement.

#### *Credit Agreement*

On April 5, 2019, the Company and its wholly-owned subsidiaries, ACI Worldwide Corp. and ACI Payments, Inc. entered into the Second Amended and Restated Credit Agreement (the "Credit Agreement") with the lenders, and Bank of America, N.A., as administrative agent for the lenders, to amend and restate the Company's existing agreement, as amended, dated February 24, 2017.

The Credit Agreement consists of (a) a five-year \$500.0 million senior secured revolving credit facility (the "Revolving Credit Facility"), which includes sublimits for (1) the issuance of standby letters of credit and (2) swingline loans, (b) a five-year \$279.0 million senior secured term loan facility (the "Initial Term Loan") and (c) a five-year \$500.0 million Delayed Draw Term Loan (together with the Initial Term Loan, the "Term Loans", and together with the Initial Term Loan and the Revolving Credit Facility, the "Credit Facility"). The Credit Agreement also allows the Company to request optional incremental term loans and increases in the revolving commitment. The Credit Facility will mature on April 5, 2024.

At the Company's option, borrowings under the Credit Facility bear interest at an annual rate equal to, either (a) a base rate determined by reference to the highest of (1) the annual interest rate publicly announced by the administrative agent as its Prime Rate, (2) the federal funds effective rate plus 1/2 of 1%, or (3) a London Interbank Offered Rate ("LIBOR") rate determined by reference to the costs of funds for U.S. dollar deposits for a one-month interest period, adjusted for certain additional costs, plus 1% or (b) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowings, adjusted for certain additional costs, plus an applicable margin. Based on the calculation of the applicable consolidated total leverage ratio, the applicable margin for borrowings under the Credit Facility is between 0.25% to 1.25% with respect to base rate borrowings and between 1.25% and 2.25% with respect to LIBOR rate borrowings. Interest is due and payable monthly. The interest rate in effect for the Credit Facility as of September 30, 2021, was 2.08%.

The Company is also required to pay (a) a commitment fee related to the unutilized commitments under the Revolving Credit Facility, payable quarterly in arrears, (b) letter of credit fees on the maximum amount available to be drawn under all outstanding letters of credit in an amount equal to the applicable margin on LIBOR rate borrowings under the Revolving Credit Facility on an annual basis, payable quarterly in arrears, and (c) customary fronting fees for the issuance of letters of credit fees and agency fees.

#### *Expected Discontinuation of LIBOR*

In July 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced it will no longer compel banks to submit rates for the calculation of LIBOR after 2021. The Alternative Reference Rates Committee has proposed the Secured Overnight Financing Rate ("SOFR") as its recommended alternative to LIBOR, and the first publication of SOFR rates was released in April 2018.

The Company is evaluating the potential impact of the transition from LIBOR as an interest rate benchmark to other potential alternative reference rates, including SOFR. The Company's Credit Agreement is currently indexed to LIBOR and the maturity date of the Credit Agreement extends beyond 2021. The Credit Agreement contemplates the discontinuation of LIBOR and provides options for the Company in such an event. The Company will continue to actively assess the related opportunities and risks involved in this transition.

#### *Senior Notes*

On August 21, 2018, the Company completed a \$400.0 million offering of the 2026 Notes at an issue price of 100% of the principal amount in a private placement for resale to qualified institutional buyers. The 2026 Notes bear interest at an annual rate of 5.750%, payable semi-annually in arrears on February 15 and August 15 of each year. The 2026 Notes will mature on August 15, 2026.

Maturities on debt outstanding as of September 30, 2021, are as follows (in thousands):

#### **Fiscal Year Ending December 31,**

Remainder of 2021	\$	9,738
2022		50,431
2023		69,906
2024		557,823
2025		—
Thereafter		400,000
Total	\$	1,087,898

As of September 30, 2021, and at all times during the period, the Company was in compliance with its financial debt covenants.

Total debt is comprised of the following (in thousands):

	September 30, 2021	December 31, 2020
Term loans	\$ 687,898	\$ 717,110
Revolving credit facility	—	55,000
5.750% Senior notes, due August 2026	400,000	400,000
Debt issuance costs	(13,578)	(17,103)
<b>Total debt</b>	<b>1,074,320</b>	<b>1,155,007</b>
Less: current portion of term loans	45,563	38,950
Less: current portion of debt issuance costs	(4,596)	(4,685)
<b>Total long-term debt</b>	<b>\$ 1,033,353</b>	<b>\$ 1,120,742</b>

#### Overdraft Facility

In 2019, the Company and ACI Payments, Inc. entered in to an uncommitted overdraft facility with Bank of America, N.A. The overdraft facility bears interest at the federal funds effective rate plus 2.250% based on the Company's average outstanding balance and the frequency in which overdrafts occur. The overdraft facility acts as a secured loan under the terms of the Credit Agreement to provide an additional funding mechanism for timing differences that can occur in the bill payment settlement process. Amounts outstanding on the overdraft facility are included in other current liabilities in the condensed consolidated balance sheet. As of September 30, 2021, there was \$75.0 million available and no amount outstanding on the overdraft facility. As of December 31, 2020, there was no amount outstanding on the overdraft facility.

#### Other

The Company finances certain multi-year license agreements for internal-use software. Upon execution, these arrangements have been treated as a non-cash investing and financing activity for purposes of the condensed consolidated statements of cash flows. As of September 30, 2021, \$5.1 million was outstanding on these agreements, of which \$2.9 million and \$2.2 million are included in other current liabilities and other noncurrent liabilities, respectively, in the condensed consolidated balance sheet. As of December 31, 2020, \$7.8 million was outstanding on these agreements, of which \$5.6 million and \$2.2 million are included in other current liabilities and other noncurrent liabilities, respectively, in the condensed consolidated balance sheet.

#### 4. Software and Other Intangible Assets

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

	September 30, 2021			December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance
Software for resale	\$ 129,771	\$ (127,842)	\$ 1,929	\$ 130,261	\$ (123,418)	\$ 6,843
Software for internal use	435,706	(270,699)	165,007	430,330	(240,717)	189,613
<b>Total software</b>	<b>\$ 565,477</b>	<b>\$ (398,541)</b>	<b>\$ 166,936</b>	<b>\$ 560,591</b>	<b>\$ (364,135)</b>	<b>\$ 196,456</b>

Amortization of software for resale is computed using the greater of (a) the ratio of current gross revenues to the total of current and future gross revenues expected to be derived from the software or (b) the straight-line method over the remaining estimated useful life of generally five to ten years. Software for resale amortization expense recorded during the three months ended September 30, 2021 and 2020, totaled \$1.5 million and \$2.1 million, respectively. Software for resale amortization expense recorded during the nine months ended September 30, 2021 and 2020, totaled \$4.9 million and \$6.1 million, respectively. These software amortization expense amounts are reflected in cost of revenue in the condensed consolidated statements of operations.

Amortization of software for internal use is computed using the straight-line method over an estimated useful life of generally three to eight years. Software for internal use amortization expense recorded during the three months ended September 30, 2021 and 2020, totaled \$17.5 million and \$17.9 million, respectively. Software for internal use amortization expense recorded during the nine months ended September 30, 2021 and 2020, totaled \$51.8 million and \$53.1 million, respectively. These software amortization expense amounts are reflected in depreciation and amortization in the condensed consolidated statements of operations.

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

	September 30, 2021			December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance
Customer relationships	\$ 508,808	\$ (221,889)	\$ 286,919	\$ 512,389	\$ (197,787)	\$ 314,602
Trademarks and trade names	23,895	(18,155)	5,740	24,115	(16,734)	7,381
Total other intangible assets	<u>\$ 532,703</u>	<u>\$ (240,044)</u>	<u>\$ 292,659</u>	<u>\$ 536,504</u>	<u>\$ (214,521)</u>	<u>\$ 321,983</u>

Other intangible assets amortization expense recorded during both the three months ended September 30, 2021 and 2020, totaled \$9.3 million. Other intangible assets amortization expense recorded during both the nine months ended September 30, 2021 and 2020, totaled \$27.8 million.

Based on capitalized intangible assets as of September 30, 2021, estimated amortization expense amounts in future fiscal years are as follows (in thousands):

Fiscal Year Ending December 31,	Software Amortization	Other Intangible Assets Amortization
Remainder of 2021	\$ 17,995	\$ 9,208
2022	57,903	36,681
2023	39,950	36,364
2024	24,135	31,860
2025	19,171	23,293
Thereafter	7,782	155,253
Total	<u>\$ 166,936</u>	<u>\$ 292,659</u>

## 5. Stock-Based Compensation Plans

### Employee Stock Purchase Plan

Shares issued under the 2017 Employee Stock Purchase Plan during the nine months ended September 30, 2021 and 2020, totaled 86,877 and 114,709, respectively.

### Stock Options

A summary of stock option activity is as follows:

	Number of Shares	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value of In-the-Money Options (\$)
Outstanding as of December 31, 2020	2,186,511	\$ 17.87		
Exercised	(380,676)	19.05		
Outstanding as of September 30, 2021	<u>1,805,835</u>	<u>\$ 17.63</u>	<u>3.27</u>	<u>\$ 23,662,370</u>
Exercisable as of September 30, 2021	<u>1,805,835</u>	<u>\$ 17.63</u>	<u>3.27</u>	<u>\$ 23,662,370</u>

The total intrinsic value of stock options exercised during the nine months ended September 30, 2021 and 2020, was \$7.8 million and \$14.3 million, respectively. There were no stock options granted during the nine months ended September 30, 2021 or 2020.

*Long-term Incentive Program Performance Share Awards*

During the nine months ended September 30, 2021, the Company modified the performance target for the remaining outstanding long-term incentive program performance shares ("LTIP performance shares") in consideration of the impact of the COVID-19 pandemic, resulting in additional stock-based compensation expense of approximately \$0.4 million. During the nine months ended September 30, 2021, a total of 10,457 LTIP performance shares vested. The Company withheld 4,527 of those shares to pay the employees' portion of the minimum payroll withholding taxes.

*Total Shareholder Return Awards*

A summary of nonvested total shareholder return awards ("TSRs") is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2020	1,367,728	\$ 34.59
Granted	367,317	50.60
Vested	(782,588)	31.31
Forfeited	(153,681)	38.57
Change in payout rate	391,294	31.31
Nonvested as of September 30, 2021	<u>1,190,070</u>	<u>\$ 40.10</u>

During the nine months ended September 30, 2021, a total of 782,588 TSRs awards granted in fiscal 2018 vested and achieved a payout rate of 200% based on the Company's total shareholder return as compared to a group of peer companies over a three-year performance period. The Company withheld 205,373 of those shares to pay the employees' portion of the minimum payroll withholding taxes.

The fair value of TSRs granted during the nine months ended September 30, 2021 and 2020, were estimated on the date of grant using the Monte Carlo simulation model, acceptable under ASC 718, *Compensation - Stock Compensation*, using the following weighted average assumptions:

	Nine Months Ended September 30,	
	2021	2020
Expected life (years)	2.8	2.8
Risk-free interest rate	0.3 %	0.5 %
Expected volatility	41.2 %	31.4 %
Expected dividend yield	—	—

*Restricted Share Units*

A summary of nonvested restricted share unit awards ("RSUs") is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2020	1,118,182	\$ 27.34
Granted	578,220	39.27
Vested	(522,608)	27.69
Forfeited	(232,734)	30.54
Nonvested as of September 30, 2021	<u>941,060</u>	<u>\$ 33.69</u>

During the nine months ended September 30, 2021, a total of 522,608 RSUs vested. The Company withheld 155,031 of those shares to pay the employees' portion of the minimum payroll withholding taxes.



As of September 30, 2021, there were unrecognized compensation costs of \$23.5 million and \$21.3 million related to nonvested RSUs and TSRs, respectively, which the Company expects to recognize over weighted average periods of 1.9 years and 2.0 years, respectively.

The Company recorded stock-based compensation expense recognized under ASC 718 for the three months ended September 30, 2021 and 2020, of \$6.4 million and \$8.1 million, respectively, with corresponding tax benefits of \$0.9 million and \$1.4 million, respectively. The Company recorded stock-based compensation expense recognized under ASC 718 for the nine months ended September 30, 2021 and 2020, of \$20.8 million and \$22.9 million, respectively, with corresponding tax benefits of \$3.1 million and \$4.2 million, respectively.

## 6. Common Stock and Treasury Stock

In 2005, the board approved a stock repurchase program authorizing the Company, as market and business conditions warrant, to acquire its common stock and periodically authorize additional funds for the program. In February 2018, the board approved the repurchase of the Company's common stock of up to \$200.0 million, in place of the remaining purchase amounts previously authorized.

The Company repurchased 1,000,000 shares for \$39.4 million during the nine months ended September 30, 2021. Under the program to date, the Company has repurchased 47,357,495 shares for approximately \$651.7 million. As of September 30, 2021, the maximum remaining amount authorized for purchase under the stock repurchase program was \$72.7 million.

## 7. Earnings Per Share

Basic earnings per share is computed in accordance with ASC 260, *Earnings Per Share*, based on weighted average outstanding common shares. Diluted earnings per share is computed based on basic weighted average outstanding common shares adjusted for the dilutive effect of stock options, RSUs, and certain contingently issuable shares for which performance targets have been achieved.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Weighted average shares outstanding:				
Basic weighted average shares outstanding	117,512	116,558	117,574	116,217
Add: Dilutive effect of stock options and RSUs	1,028	1,246	1,243	1,427
Diluted weighted average shares outstanding	118,540	117,804	118,817	117,644

The diluted earnings per share computation excludes 1.6 million and 1.5 million options to purchase shares, RSUs, and contingently issuable shares during the three months ended September 30, 2021 and 2020, respectively, as their effect would be anti-dilutive. The diluted earnings per share computation excludes 1.5 million and 1.7 million options to purchase shares, RSUs, and contingently issuable shares during the nine months ended September 30, 2021 and 2020, respectively, as their effect would be anti-dilutive.

Common stock outstanding as of September 30, 2021, and December 31, 2020, was 117,530,460 and 117,112,185, respectively.

## 8. Other, Net

Other, net is primarily comprised of foreign currency transaction gains and losses. Other, net was \$1.1 million of expense and \$1.4 million of income for the three months ended September 30, 2021 and 2020, respectively. Other, net was \$1.0 million and \$6.4 million of expense for the nine months ended September 30, 2021 and 2020, respectively.

## 9. Segment Information

In January 2021, the Company made a change in organizational structure to align with its strategic direction. As a result of this change, the Company reassessed its segment reporting structure due to changes in how the Company's chief operating decision maker ("CODM") assesses the Company's performance and allocates resources. Beginning in the first quarter of 2021, the Company reports financial performance based on its new operating segments, Banks, Merchants, and Billers, and analyzes Segment Adjusted EBITDA as a measure of segment profitability.

The Company's Chief Executive Officer is also the CODM. The CODM, together with other senior management personnel, focus their review on consolidated financial information and the allocation of resources based on operating results, including revenues and Segment Adjusted EBITDA, for each segment, separate from Corporate operations. No operating segments have been aggregated to form the reportable segments.

*Banks.* ACI provides payment solutions to large and mid-size banks globally for retail banking, real time, digital, and other payment services. These solutions transform banks' complex payment environments to speed time to market, reduce costs, and deliver a consistent experience to customers across channels while enabling them to prevent and rapidly react to fraudulent activity. In addition, they enable banks to meet the requirements of different real-time payments schemes and to quickly create differentiated products to meet consumer, business, and merchant demands.

*Merchants.* ACI's support of merchants globally includes Tier 1 and Tier 2 merchants, online-only merchants and the payment service providers, independent selling organizations, value-added resellers, and acquirers who service them. These customers operate in a variety of verticals, including general merchandise, grocery, hospitality, dining, transportation, and others. The Company's solutions provide merchants with a secure, omni-channel payments platform that gives them independence from third-party payment providers. They also offer secure solutions to online-only merchants that provide consumers with a convenient and seamless way to shop.

*Billers.* Within the billers segment, ACI provides electronic bill presentment and payment ("EBPP") services to companies operating in the consumer finance, insurance, healthcare, higher education, utility, government, and mortgage categories. The solutions enable these customers to support a wide range of payment options and provide a convenient consumer payments experience that drives consumer loyalty and increases revenue.

Revenue is attributed to the reportable segments based upon the customer. Expenses are attributed to the reportable segments in one of three methods: (1) direct costs of the segment, (2) labor costs that can be attributed based upon time tracking for individual projects, or (3) costs that are allocated. Allocated costs are generally marketing and sales related activities.

Segment Adjusted EBITDA is the measure reported to the CODM for purposes of making decisions on allocating resources and assessing the performance of the Company's segments, and, therefore, Segment Adjusted EBITDA is presented in conformity with ASC 280, *Segment Reporting*. Segment Adjusted EBITDA is defined as earnings (loss) from operations before interest, income tax expense (benefit), depreciation and amortization ("EBITDA") adjusted to exclude net other income (expense).

Corporate and unallocated expenses includes global facilities and information technology costs and long-term product roadmap expenses in addition to corporate overhead costs that are not allocated to reportable segments. The overhead costs relate to human resources, finance, legal, accounting, and merger and acquisition activity. These costs along with depreciation and amortization and stock-based compensation are not considered when management evaluates segment performance.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Revenue</b>				
Banks	\$ 131,744	\$ 125,658	\$ 341,712	\$ 356,865
Merchants	38,989	40,761	115,083	109,870
Billers	146,181	149,464	446,974	440,543
<b>Total revenue</b>	<b>\$ 316,914</b>	<b>\$ 315,883</b>	<b>\$ 903,769</b>	<b>\$ 907,278</b>
<b>Segment Adjusted EBITDA</b>				
Banks	\$ 67,602	\$ 71,666	\$ 159,262	\$ 182,487
Merchants	14,221	18,954	41,987	38,210
Billers	31,969	33,875	100,593	98,414
Depreciation and amortization	(33,380)	(35,490)	(100,366)	(105,004)
Stock-based compensation expense	(6,367)	(8,061)	(20,790)	(22,943)
Corporate and unallocated expenses	(46,066)	(49,762)	(133,593)	(142,127)
Interest, net	(8,374)	(9,998)	(25,390)	(35,457)
Other, net	(1,088)	1,356	(1,036)	(6,361)
<b>Income before income taxes</b>	<b>\$ 18,517</b>	<b>\$ 22,540</b>	<b>\$ 20,667</b>	<b>\$ 7,219</b>

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

The following is revenue by primary solution category for the Company's reportable segments for the periods indicated (in thousands):

	Three Months Ended September 30, 2021			
	Banks	Merchants	Billers	Total
<b>Primary Solution Categories</b>				
Bill Payments	\$ —	\$ —	\$ 146,181	\$ 146,181
Digital Business Banking	16,527	—	—	16,527
Merchant Payments	—	38,989	—	38,989
Fraud Management	6,882	—	—	6,882
Real-Time Payments	27,638	—	—	27,638
Issuing and Acquiring	80,697	—	—	80,697
Total	\$ 131,744	\$ 38,989	\$ 146,181	\$ 316,914

	Three Months Ended September 30, 2020			
	Banks	Merchants	Billers	Total
<b>Primary Solution Categories</b>				
Bill Payments	\$ —	\$ —	\$ 149,464	\$ 149,464
Digital Business Banking	14,443	—	—	14,443
Merchant Payments	—	40,761	—	40,761
Fraud Management	11,513	—	—	11,513
Real-Time Payments	12,998	—	—	12,998
Issuing and Acquiring	86,704	—	—	86,704
Total	\$ 125,658	\$ 40,761	\$ 149,464	\$ 315,883

	Nine Months Ended September 30, 2021			
	Banks	Merchants	Billers	Total
<b>Primary Solution Categories</b>				
Bill Payments	\$ —	\$ —	\$ 446,974	\$ 446,974
Digital Business Banking	47,319	—	—	47,319
Merchant Payments	—	115,083	—	115,083
Fraud Management	23,563	—	—	23,563
Real-Time Payments	58,534	—	—	58,534
Issuing and Acquiring	212,296	—	—	212,296
Total	\$ 341,712	\$ 115,083	\$ 446,974	\$ 903,769

	Nine Months Ended September 30, 2020			
	Banks	Merchants	Billers	Total
<b>Primary Solution Categories</b>				
Bill Payments	\$ —	\$ —	\$ 440,543	\$ 440,543
Digital Business Banking	45,327	—	—	45,327
Merchant Payments	—	109,870	—	109,870
Fraud Management	25,183	—	—	25,183
Real-Time Payments	57,160	—	—	57,160
Issuing and Acquiring	229,195	—	—	229,195
Total	\$ 356,865	\$ 109,870	\$ 440,543	\$ 907,278

The following is revenue by the Company's reportable segments for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Banks</b>				
Software as a service and platform as a service	\$ 14,794	\$ 13,881	\$ 43,555	\$ 41,036
License	51,062	48,997	102,993	123,735
Maintenance	48,829	48,331	146,091	145,973
Services	17,059	14,449	49,073	46,121
Total	\$ 131,744	\$ 125,658	\$ 341,712	\$ 356,865
<b>Merchants</b>				
Software as a service and platform as a service	\$ 30,561	\$ 27,099	\$ 93,336	\$ 82,648
License	3,392	7,776	7,296	11,209
Maintenance	4,610	4,643	12,705	12,864
Services	426	1,243	1,746	3,149
Total	\$ 38,989	\$ 40,761	\$ 115,083	\$ 109,870
<b>Billers</b>				
Software as a service and platform as a service	\$ 146,101	\$ 149,389	\$ 446,639	\$ 440,208
License	—	—	94	94
Maintenance	80	75	241	241
Services	—	—	—	—
Total	\$ 146,181	\$ 149,464	\$ 446,974	\$ 440,543

The following is the Company's revenue by geographic location for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Revenue</b>				
United States	\$ 199,195	\$ 199,209	\$ 587,002	\$ 611,383
Other	117,719	116,674	316,767	295,895
Total	\$ 316,914	\$ 315,883	\$ 903,769	\$ 907,278

The following is the Company's long-lived assets by geographic location for the periods indicated (in thousands):

	September 30, 2021	December 31, 2020
<b>Long-lived Assets</b>		
United States	\$ 1,383,348	\$ 1,423,862
Other	724,832	750,651
Total	\$ 2,108,180	\$ 2,174,513

No single customer accounted for more than 10% of the Company's consolidated revenues during the three and nine months ended September 30, 2021 and 2020. No other country outside the United States accounted for more than 10% of the Company's consolidated revenues during the three and nine months ended September 30, 2021 and 2020.

## 10. Income Taxes

For the three and nine months ended September 30, 2021, the Company's effective tax rate was 26% and 11%, respectively. The Company reported tax expense on pretax income for both the three and nine months ended September 30, 2021, with foreign entities recognizing earnings of \$18.1 million and \$27.7 million, respectively. The effective tax rate for the three months ended September 30, 2021, was negatively impacted by excess tax expense on equity-based compensation. The effective tax rate for the nine months ended September 30, 2021, was positively impacted by excess tax benefits on equity-based compensation.

For the three and nine months ended September 30, 2020, the Company's effective tax rate was 30% and 24%, respectively. The Company reported tax expense on pretax income for both the three and nine months ended September 30, 2020, with foreign entities recognizing earnings of \$23.4 million and losses of \$19.7 million, respectively. The effective tax rate for the three and nine months ended September 30, 2020, was negatively impacted by a change in tax rates in certain countries.

The Company's effective tax rate could fluctuate on a quarterly basis due to the occurrence of significant and unusual or infrequent items, such as vesting of stock-based compensation or foreign currency gains and losses. The Company's effective tax rate could also fluctuate due to changes in the valuation of its deferred tax assets or liabilities, or by changes in tax laws, regulations, accounting principles, or interpretations thereof. In addition, the Company is occasionally subject to examination of its income tax returns by tax authorities in the jurisdictions in which it operates. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes.

As of September 30, 2021, and December 31, 2020, the amount of unrecognized tax benefits for uncertain tax positions was \$25.8 million and \$24.3 million, respectively, excluding related liabilities for interest and penalties of \$1.3 million and \$1.2 million as of September 30, 2021, and December 31, 2020, respectively.

The Company believes it is reasonably possible that the total amount of unrecognized tax benefits will decrease within the next 12 months by approximately \$3.5 million, due to the settlement of various audits and the expiration of statutes of limitation.

## **11. Commitments and Contingencies**

### *Legal Proceedings*

In April 2021, ACH files associated with one of the Company's mortgage servicing customers were inadvertently transmitted to a processing bank during a test of its ACH file production system. Reversal ACH files were promptly issued, restoring affected accounts. The Company has been contacted by the U.S. Consumer Finance Protection Bureau and various state consumer protection and regulatory agencies about this incident, and is cooperating in their investigations, which could result in fines or penalties that could be material.

In addition, the Company has been named as a defendant in seven class action lawsuits filed in various federal courts purportedly on behalf of consumers whose mortgage accounts were affected. The complaints vary, but generally allege violations of federal and state consumer protection and other laws and claim that the Company is obligated to pay statutory and other damages. The Company intends to vigorously defend these cases. Defending such cases could be time-consuming and costly, and failure to successfully defend the Company in any or all of these cases could have a material effect.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Forward-Looking Statements**

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

Forward-looking statements in this report include, but are not limited to, statements regarding future operations, business strategy, business environment, key trends, and, in each case, statements related to expected financial and other benefits. Many of these factors will be important in determining our actual future results. Any or all of the forward-looking statements in this report 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 forward-looking statements in this report are expressly qualified by the risk factors discussed in our filings with the Securities and Exchange Commission ("SEC"). 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 our Risk Factors in Part 1, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, and in Part 2, Item 1A of this Form 10-Q.

The following discussion should be read together with our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, and with our financial statements and related notes contained in this Form 10-Q. Results for the three and nine months ended September 30, 2021, are not necessarily indicative of results that may be attained in the future.

### **COVID-19 Pandemic**

The COVID-19 pandemic has resulted in authorities implementing numerous measures to try to contain the virus. These measures may remain in place for a significant period of time, or may be reinstated after being temporarily lifted, and could adversely affect our business, operations and financial condition as well as the business, operations and financial conditions of our customers and business partners. The spread of the virus has also caused us to modify our business practices (including employee work locations and cancellation of physical participation in meetings) in ways that may be detrimental to our business (including working remotely and its attendant cybersecurity risks). We may take further actions as may be required by government authorities or that we determine are in the best interests of our employees and customers. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or otherwise be satisfactory to government authorities.

We created a dedicated Crisis Management Team to oversee and execute our business continuity plans and a variety of measures designed to ensure the ongoing availability of our products, solutions and services for our customers, while taking health and safety measures for our employees, including telecommuting, travel restrictions, social distancing policies, and stepped-up facility cleaning practices.

We believe we have sufficient liquidity to continue business operations during this volatile and uncertain period. We have \$640.0 million of available liquidity as of September 30, 2021, consisting of cash on hand and availability under our revolving credit facility. To address the potential long-term financial impacts of the virus, we have delayed non-essential capital spending and operating expenses.

The pandemic presents potential new risks to our business. We began to see the impacts of COVID-19 on certain customer transaction volumes in late March 2020 and continued to see changes into 2021, primarily within the Merchants and Billers segment. The effect of COVID-19 and related events, including those described above, could have an ongoing negative effect on our stock price, business prospects, financial condition, and results of operations. More specifically, for those customers under consumption-based contracts, continued declines in transaction volumes could negatively impact our financial position, results of operations, and cash flows. We have also experienced atypical fluctuations in Biller volumes as a result of the change in timing of assessments and due dates for federal, state, and local taxes.

For the reasons discussed above, we cannot reasonably estimate with any degree of certainty the future impact COVID-19 may have on our results of operations, financial position, and liquidity. Notwithstanding any actions by national, state, and local governments to mitigate the impact of COVID-19 or by us to address the adverse impacts of COVID-19, there can be no assurance that any of the foregoing activities will be successful in mitigating or preventing significant adverse effects on the Company.

### **Overview**

ACI Worldwide powers digital payments for more than 6,000 organizations around the world. More than 1,000 of the largest banks and intermediaries, as well as thousands of global merchants, rely on ACI to execute \$14 trillion each day in payments and securities. In addition, myriad organizations utilize our electronic bill presentment and payment services. Through our comprehensive suite of software solutions delivered on customers' premises, through the public cloud or through ACI's private cloud, we provide real-time, immediate payments capabilities and enable the industry's most complete omni-channel payments experience.

Our products are sold and supported directly and through distribution networks covering three geographic regions – the Americas; Europe, Middle East, and Africa (“EMEA”); and Asia Pacific. Each region has a globally coordinated sales force, supplemented with local independent reseller and/or distributor networks. Our products and solutions are used globally by banks, intermediaries, merchants, and billers, such as third-party electronic payment processors, payment associations, switch interchanges, and a wide range of transaction-generating endpoints, including ATMs, merchant point-of-sale (“POS”) terminals, bank branches, mobile phones, tablets, corporations, and internet commerce sites. Accordingly, our business and operating results are influenced by trends such as information technology spending levels, the growth rate of digital payments, mandated regulatory changes, and changes in the number and type of customers in the financial services industry, as well as economic growth and purchasing habits. Our products are marketed under the ACI Worldwide brand.

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 also continue to maintain centers of expertise in Timisoara, Romania and Pune and Bangalore in India, as well as key operational centers such as in Cape Town, South Africa and in multiple locations in the United States.

Key trends that currently impact our strategies and operations include:

**Increasing digital payment transaction volumes.** The adoption of digital payments continues to accelerate, propelled by the digitization of cash, the Internet of Things, rapid growth of eCommerce, proliferation of cryptocurrencies, and the adoption of real-time payments. COVID-19 has further accelerated this growth as more people, governments, and businesses have embraced digital payments—a change likely to continue once the pandemic is over. We leverage the growth in transaction volumes through the licensing of new systems to customers whose older systems cannot handle increased volume, through the sale of capacity upgrades to existing customers, and through the scalability of our platform-based solutions.

**Adoption of real-time payments.** Expectations from both consumers and businesses, are continuing to drive the payments world to more real-time delivery. This is bolstered by the new data-rich ISO 20022 messaging format, which promises to deliver greater value to banks and their customers. We are seeing global players with existing schemes working to expand capacity in anticipation of volume growth (further driven by COVID-19) and new payment types. Mature markets, including India, the United Kingdom, Australia, Malaysia, Singapore, Thailand, and the Nordics (P27), continue to accelerate innovation, especially in terms of overlay services and cross-border connectivity. The United States is driving real-time payments adoption through Zelle, TCH Real-Time Payments, and the planned FedNow service, while Brazil's PIX was launched in November 2020. ACI's broad software portfolio, experience, and strategic partnerships with Mastercard, Microsoft, and Mindgate Solutions continue to position us as a leader in real-time payments, helping to drive seamless connectivity, increased security, and end-to-end modernization for organizations throughout the world.

**Adoption of cloud technology.** To leverage lower-cost computing technologies, increase time to market, accelerate innovation, and ensure scalability and resiliency, banks, intermediaries, merchants, and billers are seeking to transition their systems to make use of cloud technology. Our investments and partnerships, as demonstrated by our product enablement and initial optimization onto Microsoft Azure, enable us to leverage the hybrid cloud technology benefits of automation and rapid deployment and delivery, while preserving the ACI fundamentals of resiliency and scalability, to deliver cloud capabilities now and in the future. Market sizing data from Ovum (now Omdia) indicates that spend on SaaS and PaaS payment systems is growing faster than spend on installed applications.

**Digital payments fraud and compliance.** The rise in digital payment transaction volumes and payment types has subsequently led to an increase in online fraud in many guises and across all channels. Driven in part by COVID-19, we have seen an increase in phishing and friendly fraud, as well as remote banking fraud and authorized push payment scams. Real-time payments bring a new level of urgency, as money cannot easily be retrieved once it has been sent. Banks, intermediaries, merchants, and billers must find faster, smarter, more accurate and increasingly automated ways to secure customers and meet regulatory pressures. We continue to see opportunity to offer our fraud detection solutions with advanced machine learning capabilities to help customers manage the growing levels of digital payments fraud and compliance activity.

**Omni-commerce.** Shoppers are increasingly browsing, buying, and returning items across channels, including in-store, online, and mobile. COVID-19 has accelerated this trend, leading to an increase in contactless payments, click and collect, and curbside collection. Merchants from all industries, including grocers, fuel and convenience stores, are being tasked with delivering seamless experiences that include pay-in-aisle, kiosks, mobile app payments, QR code payments, eCommerce, traditional and mobile POS, buy online pickup in-store (BOPIS) and buy online return in-store (BORIS). We believe there is significant opportunity to provide merchants with the tools to deliver a seamless, secure, personalized experience that creates loyalty and satisfaction, and drives conversion rates while protecting consumer data and preventing fraud.

**Request for Payment (RfP).** Markets across the world are introducing an innovative payments service called Request for Payment (RfP). This technology is known by different names in different markets: Collect payments in India, Request 2 Pay in Europe, Request To Pay (RTP) in the United Kingdom, or Request for Payment (RfP) in the United States. RfP offers secure messaging between consumers and billers or merchants, wherein a biller or merchant can request a payment from a consumer through the use of a trusted app, most likely a banking app. RfP is primarily being implemented on top of real-time payments, which are continuing to grow and flourish as countries around the world develop and launch their real-time schemes as noted above. ACI is in a unique position to deliver this overlay service given our real-time payments software, our relationships with banks, merchants and billers, and global real-time connectivity.



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 are complex, and it can be difficult to estimate when we will recognize revenue generated by a given transaction. Factors such as creditworthiness of the customer and timing of transfer of control or acceptance of our products may cause revenues related to sales generated in one period to be deferred and recognized in later periods. For arrangements in which services revenue is deferred, related direct and incremental costs may also be deferred. Additionally, while the majority of our contracts are denominated in the U.S. dollar, a substantial portion of our sales are made, and some of our expenses are incurred, in the local currency of countries other than the United States. Fluctuations in currency exchange rates in a given period may result in the recognition of gains or losses for that period.

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

## **Backlog**

Backlog is comprised of:

- Committed Backlog, which includes (1) contracted revenue that will be recognized in future periods (contracted but not recognized) from software license fees, maintenance fees, service fees, and SaaS and PaaS fees specified in executed contracts (including estimates of variable consideration if required under ASC 606, *Revenue From Contracts With Customers*) and included in the transaction price for those contracts, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods and (2) estimated future revenues from software license fees, maintenance fees, services fees, and SaaS and PaaS fees specified in executed contracts.
- Renewal Backlog, which includes estimated future revenues from assumed contract renewals to the extent we believe recognition of the related revenue will occur within the corresponding backlog period.

We have historically included assumed renewals in backlog estimates based upon automatic renewal provisions in the executed contract and our historic experience with customer renewal rates.

Our 60-month backlog estimates are derived using the following key assumptions:

- License arrangements are assumed to renew at the end of their committed term or under the renewal option stated in the contract at a rate consistent with historical experience. If the license arrangement includes extended payment terms, the renewal estimate is adjusted for the effects of a significant financing component.
- 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.
- SaaS and PaaS arrangements are assumed to renew at the end of their committed term at a rate consistent with our historical experiences.
- 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 by our customers.
- Optional annual uplifts or inflationary increases in recurring fees.
- Services engagements, other than SaaS and PaaS arrangements, are not assumed to renew over the 60-month backlog period.
- The potential impact of consolidation activity within our markets and/or customers.

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

The following table sets forth our 60-month backlog estimate, by reportable segment, as of September 30, 2021, June 30, 2021, March 31, 2021, and December 31, 2020 (in millions). Dollar amounts reflect foreign currency exchange rates as of each period end.

	<b>September 30, 2021</b>	<b>June 30, 2021</b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Banks	\$ 2,310	\$ 2,248	\$ 2,117	\$ 2,167
Merchants	788	839	811	808
Billers	3,112	3,094	3,016	3,064
Total	<u>\$ 6,210</u>	<u>\$ 6,181</u>	<u>\$ 5,944</u>	<u>\$ 6,039</u>

  

	<b>September 30, 2021</b>	<b>June 30, 2021</b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Committed	\$ 2,240	\$ 2,283	\$ 2,308	\$ 2,447
Renewal	3,970	3,898	3,636	3,592
Total	<u>\$ 6,210</u>	<u>\$ 6,181</u>	<u>\$ 5,944</u>	<u>\$ 6,039</u>

Estimates of future financial results require substantial judgment and are based on several assumptions, as described above. These assumptions may turn out to be inaccurate or wrong for reasons outside of management's control. For example, our customers may attempt to renegotiate or terminate their contracts for many reasons, including mergers, changes in their financial condition, or general changes in economic conditions (e.g. economic declines resulting from COVID-19) in the customer's industry or geographic location. We may also 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 recognized in future periods. Accordingly, there can be no assurance that amounts included in backlog estimates will generate the specified revenues or that the actual revenues will be generated within the corresponding 60-month period. Additionally, because certain components of Committed Backlog and all of Renewal Backlog estimates are operating metrics, the estimates are not required to be subject to the same level of internal review or controls as contracted but not recognized Committed Backlog.

## RESULTS OF OPERATIONS

The following table presents the condensed consolidated statements of operations, as well as the percentage relationship to total revenues for items included in our condensed consolidated statements of operations (in thousands):

### Three Month Period Ended September 30, 2021 Compared to the Three Month Period Ended September 30, 2020

	Three Months Ended September 30,				2020	
	2021		2021		2020	
	Amount	% of Total Revenue	\$ Change vs 2020	% Change vs 2020	Amount	% of Total Revenue
<b>Revenues:</b>						
Software as a service and platform as a service	\$ 191,456	60 %	\$ 1,087	1 %	\$ 190,369	60 %
License	54,454	17 %	(2,319)	(4)%	56,773	18 %
Maintenance	53,519	17 %	470	1 %	53,049	17 %
Services	17,485	6 %	1,793	11 %	15,692	5 %
Total revenues	316,914	100 %	1,031	— %	315,883	100 %
<b>Operating expenses:</b>						
Cost of revenue	158,712	50 %	133	— %	158,579	50 %
Research and development	35,248	11 %	1,675	5 %	33,573	11 %
Selling and marketing	33,413	11 %	11,259	51 %	22,154	7 %
General and administrative	29,717	9 %	(7,283)	(20)%	37,000	12 %
Depreciation and amortization	31,845	10 %	(1,550)	(5)%	33,395	11 %
Total operating expenses	288,935	91 %	4,234	1 %	284,701	91 %
Operating income	27,979	9 %	(3,203)	(10)%	31,182	9 %
<b>Other income (expense):</b>						
Interest expense	(11,208)	(4)%	1,717	(13)%	(12,925)	(4)%
Interest income	2,834	1 %	(93)	(3)%	2,927	1 %
Other, net	(1,088)	— %	(2,444)	(180)%	1,356	— %
Total other income (expense)	(9,462)	(3)%	(820)	9 %	(8,642)	(3)%
Income before income taxes	18,517	6 %	(4,023)	(18)%	22,540	6 %
Income tax expense	4,753	1 %	(1,921)	(29)%	6,674	2 %
Net income	\$ 13,764	5 %	\$ (2,102)	(13)%	\$ 15,866	4 %

### Revenues

Total revenue for the three months ended September 30, 2021, increased \$1.0 million, as compared to the same period in 2020.

- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$2.2 million increase in total revenue during the three months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of foreign currency, total revenue for the three months ended September 30, 2021, decreased \$1.2 million, as compared to the same period in 2020.

### Software as a Service (“SaaS”) and Platform as a Service (“PaaS”) Revenue

The Company’s SaaS arrangements allow customers to use certain software solutions (without taking possession of the software) in a single-tenant cloud environment on a subscription basis. The Company’s PaaS arrangements allow customers to use certain software solutions (without taking possession of the software) in a multi-tenant cloud environment on a subscription or consumption basis. Included in SaaS and PaaS revenue are fees paid by our customers for use of our Biller solutions. Biller-related 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. SaaS and PaaS costs include payment card interchange fees, the amounts payable to banks and payment card processing fees, which are included in cost of revenue in the condensed consolidated statements of operations. All fees from SaaS and PaaS arrangements that do not qualify for treatment as a distinct performance obligation, which includes set-up fees, implementation or customization services, and product support services, are included in SaaS and PaaS revenue.

SaaS and PaaS revenue increased \$1.1 million, or 1%, during the three months ended September 30, 2021, as compared to the same period in 2020.

- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$0.7 million increase in SaaS and PaaS revenue during the three months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of foreign currency, SaaS and PaaS revenue for the three months ended September 30, 2021, increased \$0.4 million, as compared to the same period in 2020.

#### *License Revenue*

Customers purchase the right to license ACI software under multi-year, time-based software license arrangements that vary in length but are generally five years. Under these arrangements the software is installed at the customer's location (i.e. on-premise). 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.

Included in license revenue are license and capacity fees that are payable at the inception of the agreement or annually (initial license fees). License revenue also includes license and capacity fees payable quarterly or monthly due to negotiated customer payment terms (monthly license fees). The Company recognizes revenue in advance of billings for software license arrangements with extended payment terms and adjusts for the effects of the financing component, if significant.

License revenue decreased \$2.3 million, or 4%, during the three months ended September 30, 2021, as compared to the same period in 2020.

- The decrease was primarily driven by the timing and relative size of license and capacity events during the three months ended September 30, 2021, as compared to the same period in 2020.

#### *Maintenance Revenue*

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

Maintenance revenue increased \$0.5 million, or 1%, during the three months ended September 30, 2021, as compared to the same period in 2020.

- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$1.1 million increase in maintenance revenue during the three months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of foreign currency, maintenance revenue for the three months ended September 30, 2021, decreased \$0.7 million, or 1%, as compared to the same period in 2020.

#### *Services Revenue*

Services revenue includes fees earned through implementation services and other professional services. Implementation services include product installations, product configurations, and custom software modifications ("CSMs"). Other 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.

Services revenue increased \$1.8 million, or 11%, during the three months ended September 30, 2021, as compared to the same period in 2020.

- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$0.3 million increase in services revenue during the three months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of foreign currency, services revenue for the three months ended September 30, 2021, increased \$1.5 million, or 9%, as compared to the same period in 2020.
- The increase was primarily driven by the timing and magnitude of project-related work during the three months ended September 30, 2021, as compared to the same period in 2020.

### ***Operating Expenses***

Total operating expenses for the three months ended September 30, 2021, increased \$4.2 million, or 1%, as compared to the same period in 2020.

- Total operating expenses for the three months ended September 30, 2021, included \$6.0 million of expenses related to significant transaction and cost reduction strategies implemented during the period. Total operating expenses for the three months ended September 30, 2020, included \$12.3 million of significant transaction-related expenses associated with the acquisition of Speedpay from The Western Union Company and cost reduction strategies implemented during the period.
- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$2.2 million increase in total operating expenses during the three months ended September 30, 2021, compared to the same period in 2020.
- Adjusted for the impact of significant transaction-related expenses and foreign currency, total operating expenses for the three months ended September 30, 2021, increased \$8.3 million, or 3%, compared to the same period in 2020.

### ***Cost of Revenue***

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

Cost of revenue increased \$0.1 million during the three months ended September 30, 2021, compared to the same period in 2020.

### ***Research and Development***

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

R&D expense increased \$1.7 million, or 5%, during the three months ended September 30, 2021, as compared to the same period in 2020.

- R&D expense for the three months ended September 30, 2021 and 2020, included \$0.9 million and \$0.3 million, respectively, of expenses related to significant transactions and cost reduction strategies implemented during the period.
- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$0.3 million increase in R&D expense during the three months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of significant transaction-related expenses and foreign currency, R&D expense increased \$0.8 million, or 2%, for the three months ended September 30, 2021, as compared to the same period in 2020, primarily due to higher personnel and related expenses.

### ***Selling and Marketing***

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

Selling and marketing expense increased \$11.3 million, or 51%, during the three months ended September 30, 2021, as compared to the same period in 2020.

- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$0.4 million increase in selling and marketing expense during the three months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of foreign currency, selling and marketing expense increased \$10.9 million, or 48%, for the three months ended September 30, 2021, as compared to the same period in 2020.
- The increase was primarily due to higher personnel and related expenses and professional fees of \$9.3 million and \$1.6 million, respectively.

#### *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 \$7.3 million, or 20%, during the three months ended September 30, 2021, as compared to the same period in 2020.

- General and administrative expenses for the three months ended September 30, 2021, included \$5.0 million of expenses related to significant transaction and cost reduction strategies implemented during the period. General and administrative expenses for the three months ended September 30, 2020, included \$10.8 million of significant transaction-related expenses associated with the acquisition of Speedpay and cost reduction strategies implemented during the period.
- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$0.4 million increase in general and administrative expense during the three months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of significant transaction-related expenses and foreign currency, general and administrative expense decreased \$1.9 million, or 7%, for the three months ended September 30, 2021, as compared to the same period in 2020, primarily due to lower personnel and related expenses.

#### *Depreciation and Amortization*

Depreciation and amortization decreased \$1.6 million, or 5%, during the three months ended September 30, 2021, as compared to the same period in 2020.

- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$0.2 million increase in depreciation and amortization during the three months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of foreign currency, depreciation and amortization decreased \$1.8 million, or 5%, for the three months ended September 30, 2021, as compared to the same period in 2020.

#### *Other Income and Expense*

Interest expense for the three months ended September 30, 2021, decreased \$1.7 million, or 13%, as compared to the same period in 2020, primarily due to lower comparative debt balances.

Interest income includes the portion of software license fees paid by customers under extended payment terms that is attributed to the significant financing component. Interest income for the three months ended September 30, 2021, decreased \$0.1 million, or 3%, as compared to the same period in 2020.

Other, net is primarily comprised of foreign currency transaction gains and losses. Other, net was \$1.1 million of expense and \$1.4 million of income for the three months ended September 30, 2021 and 2020, respectively.

#### *Income Taxes*

See Note 10, *Income Taxes*, to our unaudited condensed consolidated financial statements in Part I of this Form 10-Q for additional information.

## RESULTS OF OPERATIONS

The following table presents the condensed consolidated statements of operations, as well as the percentage relationship to total revenues for items included in our condensed consolidated statements of operations (in thousands):

### Nine Month Period Ended September 30, 2021 Compared to the Nine Month Period Ended September 30, 2020

	Nine Months Ended September 30,					
	2021			2020		
	Amount	% of Total Revenue	\$ Change vs 2020	% Change vs 2020	Amount	% of Total Revenue
<b>Revenues:</b>						
Software as a service and platform as a service	\$ 583,530	65 %	\$ 19,638	3 %	\$ 563,892	62 %
License	110,383	11 %	(24,655)	(18)%	135,038	15 %
Maintenance	159,037	18 %	(41)	— %	159,078	18 %
Services	50,819	6 %	1,549	3 %	49,270	5 %
Total revenues	903,769	100 %	(3,509)	— %	907,278	100 %
<b>Operating expenses:</b>						
Cost of revenue	476,811	53 %	5,049	1 %	471,762	52 %
Research and development	104,791	12 %	(3,384)	(3)%	108,175	12 %
Selling and marketing	90,211	10 %	13,519	18 %	76,692	8 %
General and administrative	89,429	10 %	(13,255)	(13)%	102,684	11 %
Depreciation and amortization	95,434	11 %	(3,494)	(4)%	98,928	11 %
Total operating expenses	856,676	96 %	(1,565)	— %	858,241	94 %
Operating income	47,093	4 %	(1,944)	(4)%	49,037	6 %
<b>Other income (expense):</b>						
Interest expense	(33,943)	(4)%	10,295	(23)%	(44,238)	(5)%
Interest income	8,553	1 %	(228)	(3)%	8,781	1 %
Other, net	(1,036)	— %	5,325	(84)%	(6,361)	(1)%
Total other income (expense)	(26,426)	(3)%	15,392	(37)%	(41,818)	(5)%
Income before income taxes	20,667	1 %	13,448	186 %	7,219	1 %
Income tax expense	2,347	— %	642	38 %	1,705	— %
Net income	\$ 18,320	1 %	\$ 12,806	232 %	\$ 5,514	1 %

### Revenues

Total revenue for the nine months ended September 30, 2021, decreased \$3.5 million, as compared to the same period in 2020.

- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$9.6 million increase in total revenue during the nine months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of foreign currency, total revenue for the nine months ended September 30, 2021, decreased \$13.1 million, or 1%, compared to the same period in 2020.

### *Software as a Service (“SaaS”) and Platform as a Service (“PaaS”) Revenue*

SaaS and PaaS revenue increased \$19.6 million, or 3%, during the nine months ended September 30, 2021, as compared to the same period in 2020.

- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$3.3 million increase in SaaS and PaaS revenue during the nine months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of foreign currency, SaaS and PaaS revenue for the nine months ended September 30, 2021, increased \$16.3 million, or 3%, compared to the same period in 2020.
- The increase was driven by transaction volumes recovering from declines seen in 2020 as a result of the COVID-19 pandemic.

### *License Revenue*

License revenue decreased \$24.7 million, or 18%, during the nine months ended September 30, 2021, as compared to the same period in 2020.

- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$0.9 million increase in license revenue during the nine months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of foreign currency, license revenue for the nine months ended September 30, 2021, decreased \$25.6 million, or 19%, compared to the same period in 2020.
- The decrease was primarily driven by the timing and relative size of license and capacity events during the nine months ended September 30, 2021, as compared to the same period in 2020.

### *Maintenance Revenue*

Maintenance revenue remained flat during the nine months ended September 30, 2021, as compared to the same period in 2020.

- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$4.2 million increase in maintenance revenue during the nine months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of foreign currency, maintenance revenue for the nine months ended September 30, 2021, decreased \$4.2 million, or 3%, compared to the same period in 2020.

### *Services Revenue*

Services revenue increased \$1.5 million, or 3%, during the nine months ended September 30, 2021, as compared to the same period in 2020.

- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$1.3 million increase in services revenue during the nine months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of foreign currency, services revenue for the nine months ended September 30, 2021, increased \$0.2 million compared to the same period in 2020.

### *Operating Expenses*

Total operating expenses for the nine months ended September 30, 2021, decreased \$1.6 million as compared to the same period in 2020.

- Total operating expenses for the nine months ended September 30, 2021, included \$10.5 million of expenses related to significant transaction and cost reduction strategies implemented during the period. Total operating expenses for the nine months ended September 30, 2020, included \$26.0 million of significant transaction-related expenses associated with the acquisition of Speedpay and cost reduction strategies implemented during the period.
- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$10.0 million increase in total operating expenses for the nine months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of significant transaction-related expenses and foreign currency, total operating expenses for the nine months ended September 30, 2021, increased \$3.9 million compared to the same period in 2020.



### *Cost of Revenue*

Cost of revenue increased \$5.0 million, or 1%, during the nine months ended September 30, 2021, compared to the same period in 2020.

- Cost of revenue for the nine months ended September 30, 2020, included \$3.4 million of significant transaction-related expenses associated with the acquisition of Speedpay.
- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$4.0 million increase in cost of revenue during the nine months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of significant transaction-related expenses and foreign currency, cost of revenue increased \$4.4 million, or 1%, for the nine months ended September 30, 2021, as compared to the same period in 2020.
- The increase was primarily due to higher payment card interchange and processing fees of \$10.9 million, partially offset by lower personnel and related expenses of \$6.5 million.

### *Research and Development*

R&D expense decreased \$3.4 million, or 3%, during the nine months ended September 30, 2021, as compared to the same period in 2020.

- R&D expense for the nine months ended September 30, 2021 and 2020, included \$1.9 million and \$0.6 million, respectively, of expenses related to significant transactions and cost reduction strategies implemented during the period.
- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$1.7 million increase in R&D expense during the nine months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of significant transaction-related items and foreign currency, R&D expense decreased \$6.4 million, or 6%, for the nine months ended September 30, 2021, as compared to the same period in 2020.
- The decrease was primarily due to lower personnel and related expenses and professional fees of \$5.0 million and \$1.4 million, respectively.

### *Selling and Marketing*

Selling and marketing expense increased \$13.5 million, or 18%, during the nine months ended September 30, 2021, as compared to the same period in 2020.

- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$1.7 million increase in selling and marketing expense for the nine months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of foreign currency, selling and marketing expense increased \$11.8 million, or 15%, for the nine months ended September 30, 2021, as compared to the same period in 2020.
- The increase was primarily due to higher personnel and related expenses and professional fees of \$9.8 million and \$2.0 million, respectively.

### *General and Administrative*

General and administrative expense decreased \$13.3 million, or 13%, during the nine months ended September 30, 2021, as compared to the same period in 2020.

- General and administrative expenses for the nine months ended September 30, 2021 and 2020, included \$8.7 million and \$22.0 million, respectively, of expenses related to significant transaction and cost reduction strategies implemented during the period.
- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$1.5 million increase in general and administrative expenses during the nine months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of significant transaction-related expenses and foreign currency, general and administrative expense decreased \$1.5 million or 2%, for the nine months ended September 30, 2021, as compared to the same period in 2020.
- The decrease was primarily due to lower personnel and related expenses of \$4.2 million, partially offset by higher professional fees of \$2.7 million.

### *Depreciation and Amortization*

Depreciation and amortization decreased \$3.5 million, or 4%, during the nine months ended September 30, 2021, as compared to the same period in 2020.

- The impact of foreign currencies strengthening against the U.S. dollar resulted in a \$1.1 million increase in depreciation and amortization expense during the nine months ended September 30, 2021, as compared to the same period in 2020.
- Adjusted for the impact of foreign currency, depreciation and amortization decreased \$4.6 million, or 5%, for the nine months ended September 30, 2021, as compared to the same period in 2020.

### *Other Income and Expense*

Interest expense for the nine months ended September 30, 2021, decreased \$10.3 million, or 23%, as compared to the same period in 2020, primarily due to lower comparative debt balances.

Interest income for the nine months ended September 30, 2021, decreased \$0.2 million, or 3%, as compared to the same period in 2020.

Other, net was \$1.0 million and \$6.4 million of expense for the nine months ended September 30, 2021 and 2020, respectively. Foreign currency loss was higher in 2020 due to the market volatility in the wake of the COVID-19 pandemic.

### *Income Taxes*

See Note 10, *Income Taxes*, to our unaudited condensed consolidated financial statements in Part I of this Form 10-Q for additional information.

### *Segment Results*

In January 2021, we made a change in organizational structure to align with our strategic direction. As a result of this change, the Company reassessed its segment reporting structure due to changes in how the Company's chief operating decision maker ("CODM") assesses the Company's performance and allocates resources. Beginning in the first quarter of 2021, we report financial performance based on our new segments, Banks, Merchants, and Billers, and analyze Segment Adjusted EBITDA as a measure of segment profitability.

Our Chief Executive Officer is also our CODM. The CODM, together with other senior management personnel, focus their review on consolidated financial information and the allocation of resources based on operating results, including revenues and Segment Adjusted EBITDA, for each segment, separate from the corporate operations. No operating segments have been aggregated to form the reportable segments.

*Banks.* ACI provides payment solutions to large and mid-size banks globally for retail banking, real time, digital, and other payment services. These solutions transform banks' complex payment environments to speed time to market, reduce costs, and deliver a consistent experience to customers across channels while enabling them to prevent and rapidly react to fraudulent activity. In addition, they enable banks to meet the requirements of different real-time payments schemes and to quickly create differentiated products to meet consumer, business, and merchant demands.

*Merchants.* ACI's support of merchants globally includes Tier 1 and Tier 2 merchants, online-only merchants and the payment service providers, independent selling organizations, value-added resellers, and acquirers who service them. These customers operate in a variety of verticals, including general merchandise, grocery, hospitality, dining, transportation, and others. Our solutions provide merchants with a secure, omni-channel payments platform that gives them independence from third-party payment providers. They also offer secure solutions to online-only merchants that provide consumers with a convenient and seamless way to shop.

*Billers.* Within the biller segment, ACI provides electronic bill presentment and payment ("EBPP") services to companies operating in the consumer finance, insurance, healthcare, higher education, utility, government, and mortgage categories. The solutions enable these customers to support a wide range of payment options and provide a convenient consumer payments experience that drives consumer loyalty and increases revenue.

Revenue is attributed to the reportable segments based upon the customer. Expenses are attributed to the reportable segments in one of three methods, (1) direct costs of the segment, (2) labor costs that can be attributed based upon time tracking for individual projects, or (3) costs that are allocated. Allocated costs are generally marketing and sales related activities.

Segment Adjusted EBITDA is the measure reported to the CODM for purposes of making decisions on allocating resources and assessing the performance of our segments and, therefore, Segment Adjusted EBITDA is presented in conformity with ASC 280, *Segment Reporting*. Segment Adjusted EBITDA is defined as earnings (loss) from operations before interest, income tax expense (benefit), depreciation and amortization (“EBITDA”) adjusted to exclude net other income (expense).

Corporate and unallocated expenses includes global facilities and information technology costs and long-term product roadmap expenses in addition to corporate overhead costs that are not allocated to reportable segments. The overhead costs relate to human resources, finance, legal, accounting, and merger and acquisition activity. These costs along with depreciation and amortization and stock-based compensation are not considered when management evaluates segment performance.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>Revenue</b>				
Banks	\$ 131,744	\$ 125,658	\$ 341,712	\$ 356,865
Merchants	38,989	40,761	115,083	109,870
Billers	146,181	149,464	446,974	440,543
<b>Total revenue</b>	<b>\$ 316,914</b>	<b>\$ 315,883</b>	<b>\$ 903,769</b>	<b>\$ 907,278</b>
<b>Segment Adjusted EBITDA</b>				
Banks	\$ 67,602	\$ 71,666	\$ 159,262	\$ 182,487
Merchants	14,221	18,954	41,987	38,210
Billers	31,969	33,875	100,593	98,414
Depreciation and amortization	(33,380)	(35,490)	(100,366)	(105,004)
Stock-based compensation expense	(6,367)	(8,061)	(20,790)	(22,943)
Corporate and unallocated expenses	(46,066)	(49,762)	(133,593)	(142,127)
Interest, net	(8,374)	(9,998)	(25,390)	(35,457)
Other, net	(1,088)	1,356	(1,036)	(6,361)
<b>Income (loss) before income taxes</b>	<b>\$ 18,517</b>	<b>\$ 22,540</b>	<b>\$ 20,667</b>	<b>\$ 7,219</b>

Banks Segment Adjusted EBITDA decreased \$4.1 million for the three months ended September 30, 2021, compared to the same period in 2020, due to a \$6.1 million increase in revenue, primarily license revenue, offset by a \$10.2 million increase in cash operating expense.

Merchants Segment Adjusted EBITDA decreased \$4.7 for the three months ended September 30, 2021, compared to the same period in 2020, due to a \$1.8 million decrease in revenue and a \$2.9 million increase in cash operating expense.

Billers Segment Adjusted EBITDA decreased \$1.9 for the three months ended September 30, 2021, compared to the same period in 2020, due to a \$3.3 million decrease in SaaS and PaaS revenue, partially offset by a \$1.4 million decrease in cash operating expense.

Banks Segment Adjusted EBITDA decreased \$23.2 million for the nine months ended September 30, 2021, compared to the same period in 2020, due to a \$15.2 million decrease in revenue, primarily license revenue, and a \$8.0 million increase in cash operating expense.

Merchants Segment Adjusted EBITDA increased \$3.8 million for the nine months ended September 30, 2021, compared to the same period in 2020, due to a \$5.2 million increase in revenue, primarily SaaS and PaaS revenue, partially offset by a \$1.4 million increase in cash operating expense.

Billers Segment Adjusted EBITDA increased \$2.2 million for the nine months ended September 30, 2021, compared to the same period in 2020, due to a \$6.4 million increase in SaaS and PaaS revenue, partially offset by a \$4.2 million increase in cash operating expense, primarily due to higher payment card interchange and processing fees.

## Liquidity and Capital Resources

### General

Our primary liquidity needs are: (i) to fund normal operating expenses; (ii) to meet the interest and principal requirements of our outstanding indebtedness; and (iii) to fund acquisitions, capital expenditures, and lease payments. We believe these needs will be satisfied using cash flow generated by our operations, our cash and cash equivalents, and available borrowings under our revolving credit facility.

Our cash requirements in the future may be financed through additional equity or debt financings. However, the disruption in the capital markets caused by the COVID-19 pandemic could make any new financing more challenging, and there can be no assurance that such financings will be obtained on commercially reasonable terms, or at all. We believe our liquidity will allow us to manage the anticipated impact of COVID-19 on our business operations for the foreseeable future, which could include reductions in revenue and delays in payments from customers and partners. We are compliant with our debt covenants and do not anticipate an inability to service our debt. As the challenges posed by COVID-19 on our business and the economy as a whole evolve rapidly, we will continue to evaluate our liquidity and financial position in light of future developments, particularly those relating to COVID-19.

### Available Liquidity

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

	September 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 141,482	\$ 165,374
Availability under revolving credit facility	498,500	443,500
Total liquidity	<u>\$ 639,982</u>	<u>\$ 608,874</u>

The increase in total liquidity is primarily attributable to positive operating cash flows of \$147.9 million, partially offset by \$39.4 million of payments related to stock repurchases, \$33.0 million of payments to purchase property and equipment and software and distribution rights, \$55.0 million of repayments on the Revolving Credit Facility, \$29.2 million of repayments on the Term Loans, and \$10.2 million of repayments on other debt.

The Company and ACI Payments, Inc., a wholly owned subsidiary, maintain a \$75.0 million uncommitted overdraft facility with Bank of America, N.A. The overdraft facility acts as a secured loan under the terms of the Credit Agreement to provide an additional funding mechanism for timing differences that can occur in the bill payment settlement process. As of September 30, 2021, the full \$75.0 million was available.

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less. As of September 30, 2021, we had \$141.5 million of cash and cash equivalents, of which \$53.7 million was held by our foreign subsidiaries. If these funds were needed for our operations in the U.S., we may potentially be required to accrue and pay foreign and U.S. state income taxes to repatriate these funds. As of September 30, 2021, only the earnings in our Indian foreign subsidiaries are indefinitely reinvested. The earnings of all other foreign entities are no longer indefinitely reinvested. We are also permanently reinvested for outside book/tax basis difference related to foreign subsidiaries. These outside basis differences could reverse through sales of the foreign subsidiaries, as well as various other events, none of which are considered probable as of September 30, 2021.

**Cash Flows**

The following table sets forth summarized cash flow data for the periods indicated (in thousands):

	<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
<b>Net cash provided by (used by):</b>		
Operating activities	\$ 147,898	\$ 192,058
Investing activities	(33,009)	(35,647)
Financing activities	(138,865)	(148,916)

**Cash Flows from Operating Activities**

Net cash flows provided by operating activities during the nine months ended September 30, 2021, were \$147.9 million as compared to \$192.1 million during the same period in 2020. Net cash provided by operating activities primarily consists of net income adjusted to add back depreciation, amortization, and stock-based compensation. Cash flows provided by operating activities were \$44.2 million lower for the nine months ended September 30, 2021, compared to the same period in 2020, primarily attributable to the timing of working capital. Our current policy is to use our operating cash flow primarily for funding capital expenditures, lease payments, debt repayments, stock repurchases, and acquisitions.

**Cash Flows from Investing Activities**

During the first nine months of 2021, we used cash of \$33.0 million to purchase software, property, and equipment, as compared to \$35.6 million during the same period in 2020.

**Cash Flows from Financing Activities**

Net cash flows used by financing activities for the nine months ended September 30, 2021, were \$138.9 million as compared to \$148.9 million during the same period in 2020. During the first nine months of 2021, we repaid \$55.0 million on the Revolving Credit Facility and \$29.2 million on the Term Loans. In addition, we used \$39.4 million to repurchase common stock and \$14.8 million for the repurchase of stock-based compensation awards for tax withholdings. We also received proceeds of \$9.8 million from the exercise of stock options and the issuance of common stock under our 2017 Employee Stock Purchase Plan, as amended. During the first nine months of 2020, we repaid a net \$79.0 million on the Revolving Credit Facility and \$29.2 million on the Initial Term Loans. In addition, we used \$28.9 million to repurchase common stock and \$11.2 million for the repurchase of stock-based compensation awards for tax withholdings. We also received proceeds of \$9.4 million from the exercise of stock options and the issuance of common stock under our 2017 Employee Stock Purchase Plan, as amended.

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 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 and debt service requirements, for the next twelve months and foreseeable future.

**Debt**

As of September 30, 2021, we had \$687.9 million outstanding under our Term Loans, with up to \$498.5 million of unused borrowings under the Revolving Credit Facility, as amended, and up to \$1.5 million of unused borrowings under the Letter of Credit agreement. The interest rate in effect for the Credit Facility as of September 30, 2021, was 2.08%. As of September 30, 2021, we also had \$400.0 million outstanding for the 2026 Notes.

See Note 3, *Debt*, to our unaudited condensed consolidated financial statements in Part I of this Form 10-Q for additional information.

### **Stock Repurchase Program**

We repurchased 1,000,000 shares for \$39.4 million under the program during the nine months ended September 30, 2021. Under the program to date, we have repurchased 47,357,495 shares for approximately \$651.7 million. As of September 30, 2021, the maximum remaining amount authorized for purchase under the stock repurchase program was approximately \$72.7 million. See Note 6, *Common Stock and Treasury Stock*, to our unaudited condensed consolidated financial statements in Part I of this Form 10-Q for additional information.

### **Contractual Obligations and Commercial Commitments**

For the nine months ended September 30, 2021, there have been no material changes to the contractual obligations and commercial commitments disclosed in Item 7 of our Form 10-K for the fiscal year ended December 31, 2020, other than as noted below.

#### *Miami Facility Lease*

During the nine months ended September 30, 2021, the 10-year facility lease for our new headquarters in Miami, Florida commenced. In recognition of the lease, an operating lease asset of \$12.9 million and operating lease liability of \$15.2 million was incurred. These amounts are included within operating lease right-of-use assets, other current liabilities, and operating lease liabilities in the condensed consolidated balance sheet as of September 30, 2021.

#### *Microsoft Azure Agreement*

During the nine months ended September 30, 2021, we entered into a five-year, \$45 million Microsoft Azure server and cloud commitment.

### **Critical Accounting Estimates**

The preparation of the condensed consolidated financial statements requires us to 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 we believe to be proper and reasonable under the circumstances. We continually evaluate the appropriateness of estimates and assumptions used in the preparation of our condensed consolidated financial statements. Actual results could differ from those estimates.

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

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

During the nine months ended September 30, 2021, there were no significant changes to our critical accounting policies and estimates. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended December 31, 2020, for a more complete discussion of our critical accounting policies and estimates.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Excluding the impact of changes in interest rates and the uncertainty in the global financial markets, there have been no material changes to our market risk for the nine months ended September 30, 2021. 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. 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. In those instances where our goods and services have already been sold, receivables may be more difficult to collect. Additionally, in jurisdictions where the revenue contracts are denominated in U.S. dollars and operating expenses are incurred in the local currency, any decline in the value of the U.S. dollar will have an unfavorable impact to operating margins. At times, we enter into revenue contracts that are denominated in the country's local currency, primarily in Australia, Canada, the United Kingdom, other European countries, Brazil, India, and Singapore. 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 speculation or arbitrage.

The primary objective of our cash investment policy is to preserve principal without significantly increasing risk. If we maintained similar cash investments for a period of one year based on our cash investments and interest rates on these investments at September 30, 2021, 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 \$1.1 billion of debt outstanding as of September 30, 2021, with \$687.9 million outstanding under our Credit Facility and \$400.0 million in 2026 Notes. Our Credit Facility has a floating rate, which was 2.08% as of September 30, 2021. Our 2026 Notes are fixed-rate long-term debt obligations with a 5.750% interest rate. A hypothetical ten percent increase or decrease in effective interest rates would increase or decrease interest expense related to the Credit Facility by approximately \$1.4 million.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### *Disclosure Controls and Procedures*

Management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded our disclosure controls and procedures are effective as of September 30, 2021.

#### *Changes in Internal Control over Financial Reporting*

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) during the quarter ended September 30, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

See Note 11, *Commitments and Contingencies*, to our unaudited condensed consolidated financial statements in Part I of this Form 10-Q for additional information regarding legal proceedings.

### ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A of our Form 10-K for the fiscal year ended December 31, 2020, other than as described below. Additional risks and uncertainties, including risks and uncertainties not presently known to us, or that we currently deem immaterial, could also have an adverse effect on our business, financial condition and/or results of operations.

***Our software products may contain undetected defects, or errors may occur when our services are provided, which could damage our reputation with customers, decrease profitability, and expose us to liability.***

Our software products are complex. Software may contain bugs or defects that could unexpectedly interfere with the operation of the software products when first introduced or as new versions are released. Additionally, errors could occur during our provision of services, including processing services such as our bill payment services and other services delivered through the ACI On Demand platform. Software defects or service errors may result in the loss of, or delay in, market acceptance of our products and services and a corresponding loss of sales or revenues.

Customers depend upon our products and services for mission-critical applications, and product defects or service errors may hurt our reputation with customers. In addition, software product defects or errors could subject us to liability for damages, performance and warranty claims, and fines or penalties from governmental authorities, which could be material.

For example, in April 2021, ACH files associated with one of our mortgage servicing customers were inadvertently transmitted to a processing bank during a test of our ACH file production system. Reversal ACH files were promptly issued, restoring affected accounts. We have been contacted by the U.S. Consumer Finance Protection Bureau and various state consumer protection and regulatory agencies about this incident, and are cooperating in their investigations, which could result in fines or penalties that could be material.

We have also been named as a defendant in seven class action lawsuits filed in various federal courts purportedly on behalf of consumers whose mortgage accounts were affected. The complaints vary, but generally allege violations of federal and state consumer protection and other laws and claim that we are obligated to pay statutory and other damages. We intend to vigorously defend these cases. Defending such cases could be time-consuming and costly, and our failure to successfully defend ourselves in any or all of these cases could materially affect us.

***We have a few new members on our senior management team, which coupled with the announced strategy to realign our organization structure and geographic footprint, may pose challenges to our operations as we transition to the new business model.***

As a result of our Fit for Growth strategy which includes a realignment of our organizational structure and geographic footprint, we may experience personnel changes. We may face difficulties finding comparably experienced replacement employees exacerbated by the remaining impact of the COVID-19 pandemic and especially many employees continued remote working situation. Failure to meet these challenges successfully may have a material adverse effect on us.



**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Issuer Purchases of Equity Securities**

The following table provides information regarding our repurchases of common stock during the three months ended September 30, 2021:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program</b>
July 1, 2021 through July 31, 2021	—	\$ —	—	\$ 72,677,000
August 1, 2021 through August 31, 2021	—	—	—	72,677,000
September 1, 2021 through September 30, 2021	1,186 (1)	31.80	—	72,677,000
Total	1,186	\$ 31.80	—	

(1) Pursuant to our 2020 Equity and Performance Incentive Plans, we granted RSUs. Under these plans, shares are issued without direct cost to the employee. During the three months ended September 30, 2021, 4,258 shares of RSUs vested. We withheld 1,186 of those shares to pay the employees' portion of the applicable minimum payroll withholding.

In 2005, our board approved a stock repurchase program authorizing us, as market and business conditions warrant, to acquire our common stock and periodically authorize additional funds for the program, with the intention of using existing cash and cash equivalents to fund these repurchases. In February 2018, the board approved the repurchase of the Company's common stock for up to \$200.0 million, in place of the remaining purchase amounts previously authorized. As of September 30, 2021, the maximum remaining amount authorized for purchase under the stock repurchase program was approximately \$72.7 million.

There is no guarantee as to the exact number of shares we will repurchase. Repurchased shares are returned to the status of authorized but unissued shares of common stock. In March 2005, our board 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 of three business days following our quarterly earnings release.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

The following lists exhibits filed as part of this quarterly report on Form 10-Q:

<b>Exhibit No.</b>	<b>Description</b>
3.01	(1) <a href="#">ACI Worldwide, Inc. Restated Certificate of Incorporation</a>
3.02	(2) <a href="#">ACI Worldwide, Inc. Amended and Restated Bylaws of the Company</a>
4.01	(3) Form of Common Stock Certificate (P)
10.01	(4)* <a href="#">Form of Director Restricted Share Unit Award Agreement for the Company's 2020 Equity and Incentive Compensation Plan</a>
31.01	<a href="#">Certification of Principal Executive Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.02	<a href="#">Certification of Principal Financial Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.01	** <a href="#">Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.02	** <a href="#">Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Denotes exhibit that constitutes a management contract, or compensatory plan or arrangement.

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

(P) Paper Exhibit

(1) Incorporated herein by reference to Exhibit 3.1 to the registrant's current report on Form 8-K filed August 17, 2017.

(2) Incorporated herein by reference to Exhibit 3.1 to the registrant's current report on Form 8-K filed March 23, 2021.

(3) Incorporated herein by reference to Exhibit 4.01 to the registrant's Registration Statement No. 33-88292 on Form S-1.

(4) Incorporated herein by reference to Exhibit 10.01 to the registrant's current report on Form 8-K filed June 8, 2021.



## CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Odilon Almeida, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ACI Worldwide, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2021

/s/ ODILON ALMEIDA

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Odilon Almeida  
*President, Chief Executive Officer, and Director*  
*(Principal Executive Officer)*

## CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Scott W. Behrens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ACI Worldwide, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2021

/s/ SCOTT W. BEHRENS

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Scott W. Behrens  
*Executive Vice President, Chief Financial Officer, and Chief Accounting  
Officer  
(Principal Financial Officer)*

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of ACI Worldwide, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Odilon Almeida, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- 1) The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2021

/s/ ODILON ALMEIDA

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Odilon Almeida  
*President, Chief Executive Officer, and Director*  
*(Principal Executive Officer)*

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of ACI Worldwide, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott W. Behrens, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- 1) The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2021

/s/ SCOTT W. BEHRENS

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Scott W. Behrens  
*Executive Vice President, Chief Financial Officer, and Chief Accounting Officer*  
*(Principal Financial Officer)*