
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

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

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

ACI WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

2811 Ponce de Leon Blvd PH 1 Coral Gables, Florida

(Address of principal executive offices)

47-0772104

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

33134

(Zip code)

(305) 894-2200

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 October 31, 2022, there were 112,374,133 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, 2022	December 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 134,799	\$ 122,059
Receivables, net of allowances of \$3,851 and \$2,861, respectively	302,301	320,405
Settlement assets	727,754	452,396
Prepaid expenses	29,766	24,698
Other current assets	16,342	17,876
Total current assets	<u>1,210,962</u>	<u>937,434</u>
Noncurrent assets		
Accrued receivables, net	248,285	276,164
Property and equipment, net	54,328	63,050
Operating lease right-of-use assets	37,916	47,825
Software, net	134,942	157,782
Goodwill	1,226,026	1,280,226
Intangible assets, net	235,053	283,004
Deferred income taxes, net	55,454	50,778
Other noncurrent assets	60,174	62,478
TOTAL ASSETS	<u>\$ 3,263,140</u>	<u>\$ 3,158,741</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 38,227	\$ 41,312
Settlement liabilities	727,237	451,575
Employee compensation	43,637	51,379
Current portion of long-term debt	60,603	45,870
Deferred revenue	53,163	84,425
Other current liabilities	75,107	79,594
Total current liabilities	<u>997,974</u>	<u>754,155</u>
Noncurrent liabilities		
Deferred revenue	22,440	25,925
Long-term debt	947,750	1,019,872
Deferred income taxes, net	30,465	36,122
Operating lease liabilities	32,235	43,346
Other noncurrent liabilities	34,060	34,544
Total liabilities	<u>2,064,924</u>	<u>1,913,964</u>
Commitments and contingencies		
Stockholders' equity		
Preferred stock; \$0.01 par value; 5,000,000 shares authorized; no shares issued at September 30, 2022, and December 31, 2021	—	—
Common stock; \$0.005 par value; 280,000,000 shares authorized; 140,525,055 shares issued at September 30, 2022, and December 31, 2021	702	702
Additional paid-in capital	697,763	688,313
Retained earnings	1,183,230	1,131,281
Treasury stock, at cost, 27,323,712 and 24,795,009 shares at September 30, 2022, and December 31, 2021, respectively	(555,753)	(475,972)
Accumulated other comprehensive loss	(127,726)	(99,547)
Total stockholders' equity	<u>1,198,216</u>	<u>1,244,777</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 3,263,140</u>	<u>\$ 3,158,741</u>

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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues				
Software as a service and platform as a service	\$ 195,540	\$ 191,456	\$ 597,080	\$ 583,530
License	43,661	54,454	168,260	110,383
Maintenance	49,163	53,519	151,143	159,037
Services	18,227	17,485	53,613	50,819
Total revenues	306,591	316,914	970,096	903,769
Operating expenses				
Cost of revenue (1)	171,753	158,712	517,372	476,811
Research and development	35,899	35,248	114,348	104,791
Selling and marketing	32,794	33,413	102,793	90,211
General and administrative	30,516	29,717	84,753	89,429
Depreciation and amortization	32,140	31,845	95,218	95,434
Total operating expenses	303,102	288,935	914,484	856,676
Operating income	3,489	27,979	55,612	47,093
Other income (expense)				
Interest expense	(14,336)	(11,208)	(37,014)	(33,943)
Interest income	2,995	2,834	9,205	8,553
Other, net	41,545	(1,088)	45,801	(1,036)
Total other income (expense)	30,204	(9,462)	17,992	(26,426)
Income before income taxes	33,693	18,517	73,604	20,667
Income tax expense	10,576	4,753	21,655	2,347
Net income	\$ 23,117	\$ 13,764	\$ 51,949	\$ 18,320
Income per common share				
Basic	\$ 0.20	\$ 0.12	\$ 0.45	\$ 0.16
Diluted	\$ 0.20	\$ 0.12	\$ 0.45	\$ 0.15
Weighted average common shares outstanding				
Basic	113,812	117,512	114,584	117,574
Diluted	114,348	118,540	115,211	118,817

(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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 23,117	\$ 13,764	\$ 51,949	\$ 18,320
Other comprehensive loss:				
Foreign currency translation adjustments	(13,459)	(4,223)	(28,179)	(5,873)
Total other comprehensive loss	(13,459)	(4,223)	(28,179)	(5,873)
Comprehensive income	<u>\$ 9,658</u>	<u>\$ 9,541</u>	<u>\$ 23,770</u>	<u>\$ 12,447</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)

Three Months Ended September 30, 2022						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance as of June 30, 2022	\$ 702	\$ 690,574	\$ 1,160,113	\$ (528,758)	\$ (114,267)	\$ 1,208,364
Net income	—	—	23,117	—	—	23,117
Other comprehensive loss	—	—	—	—	(13,459)	(13,459)
Stock-based compensation	—	7,126	—	—	—	7,126
Shares issued and forfeited, net, under stock plans	—	63	—	1,250	—	1,313
Repurchase of 1,154,825 shares of common stock	—	—	—	(28,227)	—	(28,227)
Repurchase of stock-based compensation awards for tax withholdings	—	—	—	(18)	—	(18)
Balance as of September 30, 2022	<u>\$ 702</u>	<u>\$ 697,763</u>	<u>\$ 1,183,230</u>	<u>\$ (555,753)</u>	<u>\$ (127,726)</u>	<u>\$ 1,198,216</u>

Three Months Ended September 30, 2021						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance as of June 30, 2021	\$ 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)
Balance as of September 30, 2021	<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>

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, 2022

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance as of December 31, 2021	\$ 702	\$ 688,313	\$ 1,131,281	\$ (475,972)	\$ (99,547)	\$ 1,244,777
Net income	—	—	51,949	—	—	51,949
Other comprehensive loss	—	—	—	—	(28,179)	(28,179)
Stock-based compensation	—	21,884	—	—	—	21,884
Shares issued and forfeited, net, under stock plans	—	(12,434)	—	16,973	—	4,539
Repurchase of 3,210,313 shares of common stock	—	—	—	(90,934)	—	(90,934)
Repurchase of stock-based compensation awards for tax withholdings	—	—	—	(5,820)	—	(5,820)
Balance as of September 30, 2022	<u>\$ 702</u>	<u>\$ 697,763</u>	<u>\$ 1,183,230</u>	<u>\$ (555,753)</u>	<u>\$ (127,726)</u>	<u>\$ 1,198,216</u>

Nine Months Ended September 30, 2021

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance as of December 31, 2020	\$ 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)
Balance as of September 30, 2021	<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>

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)

	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 51,949	\$ 18,320
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	17,052	15,838
Amortization	78,817	84,528
Amortization of operating lease right-of-use assets	8,296	7,752
Amortization of deferred debt issuance costs	3,435	3,525
Deferred income taxes	(9,059)	(11,742)
Stock-based compensation expense	21,884	20,790
Gain on divestiture	(38,452)	—
Other	2,483	(27)
Changes in operating assets and liabilities:		
Receivables	5,767	55,953
Accounts payable	(3,047)	(5,080)
Accrued employee compensation	(3,872)	(1,140)
Deferred revenue	(6,367)	10,339
Other current and noncurrent assets and liabilities	(26,920)	(54,573)
Net cash flows from operating activities	<u>101,966</u>	<u>144,483</u>
Cash flows from investing activities:		
Purchases of property and equipment	(8,123)	(12,968)
Purchases of software and distribution rights	(18,394)	(20,041)
Proceeds from divestiture	100,139	—
Net cash flows from investing activities	<u>73,622</u>	<u>(33,009)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	2,801	2,526
Proceeds from exercises of stock options	1,792	7,252
Repurchase of stock-based compensation awards for tax withholdings	(5,820)	(14,833)
Repurchases of common stock	(90,934)	(39,411)
Proceeds from revolving credit facility	85,000	—
Repayment of revolving credit facility	(75,000)	(55,000)
Repayment of term portion of credit agreement	(70,825)	(29,212)
Payments on or proceeds from other debt, net	(10,106)	(10,187)
Net increase (decrease) in settlement assets and liabilities	20,084	(55,470)
Net cash flows from financing activities	<u>(143,008)</u>	<u>(194,335)</u>
Effect of exchange rate fluctuations on cash	(60)	84
Net increase (decrease) in cash and cash equivalents	32,520	(82,777)
Cash and cash equivalents, including settlement deposits, beginning of period	184,142	265,382
Cash and cash equivalents, including settlement deposits, end of period	<u>\$ 216,662</u>	<u>\$ 182,605</u>
Reconciliation of cash and cash equivalents to the Consolidated Balance Sheets		
Cash and cash equivalents	\$ 134,799	\$ 141,482
Settlement deposits	81,863	41,123
Total cash and cash equivalents, including settlement deposits	<u>\$ 216,662</u>	<u>\$ 182,605</u>
Supplemental cash flow information		
Income taxes paid	\$ 24,987	\$ 28,131
Interest paid	\$ 39,217	\$ 35,966

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, 2022, and for the three and nine months ended September 30, 2022 and 2021, 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, 2021, 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, 2021, filed on February 24, 2022. Results for the three and nine months ended September 30, 2022, 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. These estimates and assumptions are affected by management’s application of accounting policies, as well as uncertainty in the current economic environment. Actual results could differ from those estimates.

Revision of Prior Period Financial Statements

As of December 31, 2021, the Company revised the previously reported consolidated statements of cash flows to include settlement deposits in total cash and cash equivalents and settlement receivables and settlement liabilities net activity in cash flows from financing activities, both of which were previously included in cash flows from operating activities. This immaterial revision did not have an effect on its previously reported consolidated balance sheets, statements of operations, statements of comprehensive income, or statements of stockholders' equity.

A summary of the revisions to the previously reported balances are presented in the table below for comparative purposes (in thousands):

	Nine Months Ended September 30, 2021		
	As reported	Revision adjustment	As revised
Cash flows from operating activities:			
Other current and noncurrent assets and liabilities	\$ (51,158)	\$ (3,415)	\$ (54,573)
Net cash flows from operating activities	147,898	(3,415)	144,483
Cash flows from financing activities:			
Net decrease in settlement assets and liabilities	\$ —	\$ (55,470)	\$ (55,470)
Net cash flows from financing activities	(138,865)	(55,470)	(194,335)
Net decrease in cash and cash equivalents	\$ (23,892)	\$ (58,885)	\$ (82,777)
Cash and cash equivalents, including settlement deposits, beginning of period	165,374	100,008	265,382
Cash and cash equivalents, including settlement deposits, end of period	141,482	41,123	182,605

Other Current Liabilities

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

	September 30, 2022	December 31, 2021
Vendor financed licenses	\$ 12,520	\$ 12,521
Operating lease liabilities	11,061	11,518
Accrued interest	3,026	8,776
Royalties payable	2,905	4,102
Other	45,595	42,677
Total other current liabilities	<u>\$ 75,107</u>	<u>\$ 79,594</u>

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, 2022, and December 31, 2021, was \$308.7 million and \$272.8 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 \$379.9 million and \$419.0 million as of September 30, 2022, and December 31, 2021, 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 has identified its operating segments, Banks, Merchants, and Billers, as the reporting units. As of September 30, 2022, the Company's goodwill balance of \$1.2 billion was allocated \$671.7 million to Banks, \$137.3 million to Merchants, and \$417.0 million to Billers.

Recoverability of goodwill is measured using a discounted cash flow model incorporating discount rates commensurate with the risks involved. Use of a discounted cash flow model is common practice in impairment testing in the absence of available transactional market evidence to determine the fair value. The calculated fair value was substantially in excess of the current carrying value for all reporting units based upon the October 1, 2021, annual impairment test and there have been no indications of impairment in the subsequent periods.

Changes in the carrying amount of goodwill attributable to each reporting unit during the nine months ended September 30, 2022 were as follows (in thousands):

	Banks	Merchants	Billers	Total
Balance, December 31, 2021	\$ 725,903	\$ 137,289	\$ 417,034	\$ 1,280,226
Divestiture (1)	(54,200)	—	—	(54,200)
Balance, September 30, 2022	<u>\$ 671,703</u>	<u>\$ 137,289</u>	<u>\$ 417,034</u>	<u>\$ 1,226,026</u>

(1) In connection with the divestiture, \$54.2 million of goodwill from the Banks segment was allocated to the net assets sold. See Note 3, *Divestiture*, for further information on the divestiture.

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 \$17.3 million and \$19.3 million, which is included in other noncurrent assets in the condensed consolidated balance sheet as of September 30, 2022, and December 31, 2021, respectively.

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 10, *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, 2022	December 31, 2021
Billed receivables	\$ 137,498	\$ 162,479
Allowance for doubtful accounts	(3,851)	(2,861)
Billed receivables, net	133,647	159,618
Current accrued receivables, net	168,654	160,787
Long-term accrued receivables, net	248,285	276,164
Total accrued receivables, net	416,939	436,951
Total receivables, net	<u>\$ 550,586</u>	<u>\$ 596,569</u>

One customer accounted for 12.7% and 13.8% of the Company's consolidated receivables balance as of September 30, 2022 and December 31, 2021.

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, 2021	\$ 110,350
Deferral of revenue	89,117
Recognition of deferred revenue	(95,593)
Divestiture	(21,581)
Foreign currency translation	(6,690)
Balance, September 30, 2022	<u>\$ 75,603</u>

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 \$682.0 million as of September 30, 2022, of which the Company expects to recognize approximately 51% over the next 12 months and the remainder thereafter.

During the three and nine months ended September 30, 2022 and 2021, revenue recognized by the Company from performance obligations satisfied in previous periods was not significant.

3. Divestiture

Corporate Online Banking Solutions

On June 7, 2022, the Company announced a definitive agreement to divest its corporate online banking solutions related assets and liabilities to One Equity Partners ("OEP") for \$100.1 million, including preliminary net working capital adjustment. The sale included employees and customer contracts as well as technology assets and intellectual property and closed on September 1, 2022.

For the three and nine months ended September 30, 2022, the Company recognized a gain of \$38.5 million on the sale, which is recorded in other, net in the accompanying condensed consolidated statements of operations. This gain is preliminary subject to finalization of post-closing adjustments pursuant to the definitive transaction agreement.

The Company and OEP have also entered into a Transition Services Agreement ("TSA"), whereby the Company will continue to perform certain functions on OEP's behalf during a migration period not expected to exceed 18 months. The TSA is meant to reimburse the Company for direct costs in order to provide such functions, which are no longer generating revenue for the Company.

4. Debt

As of September 30, 2022, the Company had \$10.0 million, \$607.3 million, and \$400.0 million outstanding under its Revolving Credit Facility, Term Loans, and Senior Notes, respectively, with up to \$488.5 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.

On May 5, 2022, the Company and Bank of America entered into the LIBOR Transition Amendment (the "Amendment") that replaced the LIBOR reference rate with the Secured Overnight Financing Rate ("SOFR") reference rate. No other terms or conditions of the Credit Agreement were changed as a result of the Amendment.

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) SOFR 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 SOFR 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 SOFR rate borrowings. Interest is due and payable monthly. The interest rate in effect for the Credit Facility as of September 30, 2022, was 4.88%.

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 SOFR 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.

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, 2022, are as follows (in thousands):

Fiscal Year Ending December 31,

Remainder of 2022	\$	14,607
2023		69,906
2024		532,823
2025		—
2026		400,000
Thereafter		—
Total	\$	1,017,336

As of September 30, 2022, 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, 2022	December 31, 2021
Term loans	\$ 607,336	\$ 678,160
Revolving credit facility	10,000	—
5.750% Senior notes, due August 2026	400,000	400,000
Debt issuance costs	(8,983)	(12,418)
Total debt	1,008,353	1,065,742
Less: current portion of term loans	65,038	50,431
Less: current portion of debt issuance costs	(4,435)	(4,561)
Total long-term debt	\$ 947,750	\$ 1,019,872

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, 2022, there was \$75.0 million available and no amount outstanding on the overdraft facility. As of December 31, 2021, 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. During the nine months ended September 30, 2022, the Company financed certain multi-year license agreements for internal-use software for \$10.7 million, with annual payments through April 2024. As of September 30, 2022, \$9.3 million was outstanding on these and other license agreements previously entered into, of which \$5.8 million and \$3.5 million is included in other current liabilities and other noncurrent liabilities, respectively, in the condensed consolidated balance sheet. As of December 31, 2021, \$2.9 million was outstanding on these agreements, all of which is included in other current liabilities in the condensed consolidated balance sheet.

5. 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, 2022			December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance
Software for internal use	\$ 446,394	\$ (311,452)	\$ 134,942	\$ 440,242	\$ (283,109)	\$ 157,133
Software for resale	121,801	(121,801)	—	127,904	(127,255)	649
Total software	\$ 568,195	\$ (433,253)	\$ 134,942	\$ 568,146	\$ (410,364)	\$ 157,782

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, 2022 and 2021, totaled \$17.3 million and \$17.5 million, respectively. Software for internal use amortization expense recorded during the nine months ended September 30, 2022 and 2021, totaled \$51.1 million and \$51.8 million, respectively. These software amortization expense amounts are reflected in depreciation and amortization in the condensed consolidated statements of operations.

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 totaled \$1.5 million. There was no software for resale amortization expense recorded during the three months ended September 30, 2022. Software for resale amortization expense recorded during the nine months ended September 30, 2022 and 2021, totaled \$0.7 million and \$4.9 million, respectively. These software amortization expense amounts are reflected in cost of revenue 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, 2022			December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance
Customer relationships	\$ 457,027	\$ (225,527)	\$ 231,500	\$ 507,962	\$ (230,152)	\$ 277,810
Trademarks and trade names	22,942	(19,389)	3,553	23,839	(18,645)	5,194
Total other intangible assets	\$ 479,969	\$ (244,916)	\$ 235,053	\$ 531,801	\$ (248,797)	\$ 283,004

Other intangible assets amortization expense recorded during the three months ended September 30, 2022 and 2021, totaled \$8.8 million and \$9.3 million, respectively. Other intangible assets amortization expense recorded during the nine months ended September 30, 2022 and 2021, totaled \$27.1 million and \$27.8 million, respectively.

Based on capitalized intangible assets as of September 30, 2022, 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 2022	\$ 16,699	\$ 8,329
2023	51,782	33,310
2024	34,155	28,997
2025	22,985	20,747
2026	8,450	20,747
Thereafter	871	122,923
Total	\$ 134,942	\$ 235,053

6. Stock-Based Compensation Plans

Employee Stock Purchase Plan

Shares issued under the 2017 Employee Stock Purchase Plan during the nine months ended September 30, 2022 and 2021, totaled 108,149 and 86,877, 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, 2021	1,640,319	\$ 18.42		
Exercised	(98,723)	18.14		
Outstanding as of September 30, 2022	1,541,596	\$ 18.44	2.37	\$ 3,796,359
Exercisable as of September 30, 2022	1,541,596	\$ 18.44	2.37	\$ 3,796,359

The total intrinsic value of stock options exercised during the nine months ended September 30, 2022 and 2021, was \$1.1 million and \$7.8 million, respectively. There were no stock options granted during the nine months ended September 30, 2022 or 2021.

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, 2021	1,154,721	\$ 40.10
Granted	520,020	42.99
Vested	(212,210)	45.86
Forfeited	(193,979)	39.93
Change in payout rate	(114,355)	45.92
Nonvested as of September 30, 2022	1,154,197	\$ 39.79

During the nine months ended September 30, 2022, a total of 212,210 TSRs granted in fiscal 2019 vested and achieved a payout rate of 65% 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 47,612 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, 2022 and 2021, 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,	
	2022	2021
Expected life (years)	3.1	2.8
Risk-free interest rate	1.5 %	0.3 %
Expected volatility	40.0 %	41.2 %
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, 2021	946,151	\$ 33.57
Granted	1,071,776	29.97
Vested	(442,882)	33.00
Forfeited	(193,932)	32.63
Nonvested as of September 30, 2022	1,381,113	\$ 31.09

During the nine months ended September 30, 2022, a total of 442,882 RSUs vested. The Company withheld 132,707 of those shares to pay the employees' portion of the minimum payroll withholding taxes.

As of September 30, 2022, there were unrecognized compensation costs of \$33.0 million and \$23.4 million related to nonvested RSUs and TSRs, respectively, which the Company expects to recognize over weighted average periods of 2.1 years and 2.0 years, respectively.

The Company recorded stock-based compensation expense recognized under ASC 718 for the three months ended September 30, 2022 and 2021, of \$7.1 million and \$6.4 million, respectively, with corresponding tax benefits of \$1.0 million and \$0.9 million, respectively. The Company recorded stock-based compensation expense recognized under ASC 718 for the nine months ended September 30, 2022 and 2021, of \$21.9 million and \$20.8 million, respectively, with corresponding tax benefits of \$3.0 million and \$3.1 million, respectively.

7. 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 December 2021, the board approved the repurchase of the Company's common stock of up to \$250.0 million, in place of the remaining purchase amounts previously authorized.

The Company repurchased 3,210,313 shares for \$90.9 million during the nine months ended September 30, 2022. Under the program to date, the Company has repurchased 52,567,808 shares for approximately \$810.6 million. As of September 30, 2022, the maximum remaining amount authorized for purchase under the stock repurchase program was \$125.4 million.

8. 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,	
	2022	2021	2022	2021
Weighted average shares outstanding:				
Basic weighted average shares outstanding	113,812	117,512	114,584	117,574
Add: Dilutive effect of stock options and RSUs	536	1,028	627	1,243
Diluted weighted average shares outstanding	114,348	118,540	115,211	118,817

The diluted earnings per share computation excludes 2.0 million and 1.6 million RSUs and contingently issuable shares during the three months ended September 30, 2022 and 2021, respectively, as their effect would be anti-dilutive. The diluted earnings per share computation excludes 2.0 million and 1.5 million RSUs and contingently issuable shares during the nine months ended September 30, 2022 and 2021, respectively, as their effect would be anti-dilutive.

Common stock outstanding as of September 30, 2022, and December 31, 2021, was 113,201,343 and 115,730,046, respectively.

9. Other, Net

Other, net is primarily comprised of foreign currency transaction gains and losses and, for the three and nine months ended September 30, 2022, the \$38.5 million gain on divestiture. Other, net was \$41.5 million of income and \$1.1 million of expense for the three months ended September 30, 2022 and 2021, respectively. Other, net was \$45.8 million of income and \$1.0 million of expense for the nine months ended September 30, 2022 and 2021, respectively.

10. Segment Information

The Company reports financial performance based on its 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 chief operating decision maker ("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,	
	2022	2021	2022	2021
Revenue				
Banks	\$ 117,439	\$ 131,744	\$ 391,583	\$ 341,712
Merchants	35,609	38,989	113,145	115,083
Billers	153,543	146,181	465,368	446,974
Total revenue	\$ 306,591	\$ 316,914	\$ 970,096	\$ 903,769
Segment Adjusted EBITDA				
Banks	\$ 49,793	\$ 67,602	\$ 184,667	\$ 159,262
Merchants	9,781	14,221	32,243	41,987
Billers	26,348	31,969	81,029	100,593
Depreciation and amortization	(32,140)	(33,380)	(95,869)	(100,366)
Stock-based compensation expense	(7,126)	(6,367)	(21,884)	(20,790)
Corporate and unallocated expenses	(43,167)	(46,066)	(124,574)	(133,593)
Interest, net	(11,341)	(8,374)	(27,809)	(25,390)
Other, net	41,545	(1,088)	45,801	(1,036)
Income before income taxes	\$ 33,693	\$ 18,517	\$ 73,604	\$ 20,667

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, 2022				
	Banks	Merchants	Billers	Total
Primary Solution Categories				
Bill Payments	\$ —	\$ —	\$ 153,543	\$ 153,543
Digital Business Banking	9,001	—	—	9,001
Merchant Payments	—	35,609	—	35,609
Fraud Management	14,840	—	—	14,840
Real-Time Payments	24,904	—	—	24,904
Issuing and Acquiring	68,694	—	—	68,694
Total	<u>\$ 117,439</u>	<u>\$ 35,609</u>	<u>\$ 153,543</u>	<u>\$ 306,591</u>

Three Months Ended September 30, 2021				
	Banks	Merchants	Billers	Total
Primary Solution Categories				
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	<u>\$ 131,744</u>	<u>\$ 38,989</u>	<u>\$ 146,181</u>	<u>\$ 316,914</u>

Nine Months Ended September 30, 2022				
	Banks	Merchants	Billers	Total
Primary Solution Categories				
Bill Payments	\$ —	\$ —	\$ 465,368	\$ 465,368
Digital Business Banking	34,586	—	—	34,586
Merchant Payments	—	113,145	—	113,145
Fraud Management	30,169	—	—	30,169
Real-Time Payments	71,043	—	—	71,043
Issuing and Acquiring	255,785	—	—	255,785
Total	<u>\$ 391,583</u>	<u>\$ 113,145</u>	<u>\$ 465,368</u>	<u>\$ 970,096</u>

Nine Months Ended September 30, 2021				
	Banks	Merchants	Billers	Total
Primary Solution Categories				
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	<u>\$ 341,712</u>	<u>\$ 115,083</u>	<u>\$ 446,974</u>	<u>\$ 903,769</u>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Banks				
Software as a service and platform as a service	\$ 12,394	\$ 14,794	\$ 40,331	\$ 43,555
License	42,188	51,062	159,569	102,993
Maintenance	44,896	48,829	138,983	146,091
Services	17,961	17,059	52,700	49,073
Total	<u>\$ 117,439</u>	<u>\$ 131,744</u>	<u>\$ 391,583</u>	<u>\$ 341,712</u>
Merchants				
Software as a service and platform as a service	\$ 29,626	\$ 30,561	\$ 91,451	\$ 93,336
License	1,473	3,392	8,691	7,296
Maintenance	4,244	4,610	12,090	12,705
Services	266	426	913	1,746
Total	<u>\$ 35,609</u>	<u>\$ 38,989</u>	<u>\$ 113,145</u>	<u>\$ 115,083</u>
Billers				
Software as a service and platform as a service	\$ 153,520	\$ 146,101	\$ 465,298	\$ 446,639
License	—	—	—	94
Maintenance	23	80	70	241
Services	—	—	—	—
Total	<u>\$ 153,543</u>	<u>\$ 146,181</u>	<u>\$ 465,368</u>	<u>\$ 446,974</u>

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,	
	2022	2021	2022	2021
Revenue				
United States	\$ 195,571	\$ 199,195	\$ 604,345	\$ 587,002
Other	111,020	117,719	365,751	316,767
Total	<u>\$ 306,591</u>	<u>\$ 316,914</u>	<u>\$ 970,096</u>	<u>\$ 903,769</u>

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

	September 30, 2022	December 31, 2021
Long-lived Assets		
United States	\$ 1,284,306	\$ 1,425,391
Other	712,418	745,138
Total	<u>\$ 1,996,724</u>	<u>\$ 2,170,529</u>

No single customer accounted for more than 10% of the Company's consolidated revenues during the three and nine months ended September 30, 2022 and 2021. 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, 2022 and 2021.

11. Income Taxes

For the three and nine months ended September 30, 2022, the Company's effective tax rate was 31% and 29%, respectively. The Company reported tax expense on pretax income for both the three and nine months ended September 30, 2022, with foreign entities recognizing earnings of \$28.7 million and \$87.0 million, respectively. The effective tax rate for the three and nine months ended September 30, 2022, was negatively impacted by excess tax expense on equity-based compensation and state income tax expense on domestic earnings.

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.

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 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, 2022, and December 31, 2021, the amount of unrecognized tax benefits for uncertain tax positions was \$23.9 million and \$24.5 million, respectively, excluding related liabilities for interest and penalties of \$1.0 million and \$1.1 million as of September 30, 2022, and December 31, 2021, 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 \$6.0 million, due to the settlement of various audits and the expiration of statutes of limitation.

12. 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 U.S. Consumer Financial Protection Bureau and various state regulatory agencies and attorneys general commenced investigations of this incident. The Company is cooperating with these authorities, including voluntarily furnishing information to them, and seeking to resolve these matters. There can be no assurance that the matters will be resolved without litigation, and the matters could result in material fines, penalties, and statutory damages as well as burdensome and costly injunctive remedies.

Separately, the Company was named as a defendant in seven class action lawsuits filed in various federal courts purportedly on behalf of consumers whose mortgage accounts were affected by the inadvertent ACH file transmission. The Company entered into an agreement, which is subject to court approval and other conditions, to settle these lawsuits for the Company's establishment of a \$5.0 million fund out of which payments would be made to class members and the Company's payment of attorneys' fees and administrative costs, plus additional funds totaling \$1.5 million that could be required to be established in certain circumstances. There can be no assurance that the conditions to settlement will be satisfied.

The Company has asserted claims for insurance coverage with respect to potential losses associated with these matters. There is no assurance as to the amount of insurance that may be available.

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, 2021, 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, 2021, and with our financial statements and related notes contained in this Form 10-Q. Results for the three and nine months ended September 30, 2022, are not necessarily indicative of results that may be attained in the future.

Global Economy and Inflation

During the nine months ended September 30, 2022, the global economy has experienced high inflation, increased interest rates, and pressures on gross domestic product. While we believe our business is resilient and can generally weather unusually high levels of inflation, inflationary pressures have had some impact on our expected 2022 financial performance. Specifically, inflation has impacted our interchange costs associated with the Biller segment.

COVID-19

Since early 2020, the world has been, and continues to be impacted by the COVID-19 pandemic. 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, and may continue to negatively impact, global economic and market conditions, including levels of consumer and business spending. The environment surrounding COVID-19 and countermeasures taken to reduce its spread have impacted our business operations and financial results, although some of the effects have lessened over time. It may continue to impact our business operations and financial operating results, and there is uncertainty in the nature and degree of its continued effects.

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 and 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, financial inclusion efforts of countries throughout the world, 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. 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 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 and Microsoft 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, accelerate time to market, accelerate innovation, and ensure scalability and resiliency, banks and 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. 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.

Divestiture

On June 7, 2022, we announced a definitive agreement to divest our corporate online banking solutions related assets and liabilities to One Equity Partners ("OEP") for \$100.1 million. The sale included employees and customer contracts as well as technology assets and intellectual property and closed on September 1, 2022 (the "divestiture").

For the three and nine months ended September 30, 2022, we recognized a gain of \$38.5 million on the sale, which is recorded in other, net in the accompanying condensed consolidated statements of operations. This gain is preliminary subject to finalization of post-closing adjustments pursuant to the definitive transaction agreement.

The Company and OEP have also entered into a Transition Services Agreement ("TSA"), whereby the Company will continue to perform certain functions on OEP's behalf during a migration period not expected to exceed 18 months. The TSA is meant to reimburse the Company for direct costs in order to provide such functions, which are no longer generating revenue for the Company.

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, 2022, and December 31, 2021 (in millions). As a result of the divestiture, 60-month backlog decreased \$170.1 million. Dollar amounts reflect foreign currency exchange rates as of each period end. This is a non-GAAP financial measure being presented to provide comparability across accounting periods. We believe this measure provides useful information to investors and others in understanding and evaluating our financial performance.

	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
Banks	\$ 2,038	\$ 2,231	\$ 2,282	\$ 2,272
Merchants	772	762	772	754
Billers	3,267	3,179	3,128	3,084
Total	<u>\$ 6,077</u>	<u>\$ 6,172</u>	<u>\$ 6,182</u>	<u>\$ 6,110</u>

	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
Committed	\$ 2,051	\$ 2,089	\$ 2,038	\$ 2,095
Renewal	4,026	4,083	4,144	4,015
Total	<u>\$ 6,077</u>	<u>\$ 6,172</u>	<u>\$ 6,182</u>	<u>\$ 6,110</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 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, 2022 Compared to the Three Month Period Ended September 30, 2021

	Three Months Ended September 30,				2021	
	2022		2022		2021	
	Amount	% of Total Revenue	\$ Change vs 2021	% Change vs 2021	Amount	% of Total Revenue
Revenues:						
Software as a service and platform as a service	\$ 195,540	64 %	\$ 4,084	2 %	\$ 191,456	60 %
License	43,661	14 %	(10,793)	(20)%	54,454	17 %
Maintenance	49,163	16 %	(4,356)	(8)%	53,519	17 %
Services	18,227	6 %	742	4 %	17,485	6 %
Total revenues	<u>306,591</u>	<u>100 %</u>	<u>(10,323)</u>	<u>(3)%</u>	<u>316,914</u>	<u>100 %</u>
Operating expenses:						
Cost of revenue	171,753	56 %	13,041	8 %	158,712	50 %
Research and development	35,899	12 %	651	2 %	35,248	11 %
Selling and marketing	32,794	11 %	(619)	(2)%	33,413	11 %
General and administrative	30,516	10 %	799	3 %	29,717	9 %
Depreciation and amortization	32,140	10 %	295	1 %	31,845	10 %
Total operating expenses	<u>303,102</u>	<u>99 %</u>	<u>14,167</u>	<u>5 %</u>	<u>288,935</u>	<u>91 %</u>
Operating income	3,489	1 %	(24,490)	(88)%	27,979	9 %
Other income (expense):						
Interest expense	(14,336)	(5)%	(3,128)	28 %	(11,208)	(4)%
Interest income	2,995	1 %	161	6 %	2,834	1 %
Other, net	41,545	14 %	42,633	(3,918)%	(1,088)	— %
Total other income (expense)	<u>30,204</u>	<u>10 %</u>	<u>39,666</u>	<u>(419)%</u>	<u>(9,462)</u>	<u>(3)%</u>
Income before income taxes	33,693	11 %	15,176	82 %	18,517	6 %
Income tax expense	10,576	3 %	5,823	123 %	4,753	1 %
Net income	<u>\$ 23,117</u>	<u>8 %</u>	<u>\$ 9,353</u>	<u>68 %</u>	<u>\$ 13,764</u>	<u>5 %</u>

Revenues

Total revenue for the three months ended September 30, 2022, decreased \$10.3 million, or 3%, as compared to the same period in 2021.

- The divestiture resulted in a \$5.6 million decrease in total revenue for the three months ended September 30, 2022.
- The impact of foreign currencies weakening against the U.S. dollar resulted in a \$5.6 million decrease in total revenue during the three months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of the divestiture and foreign currency, total revenue for the three months ended September 30, 2022, increased \$0.9 million as compared to the same period in 2021.

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 \$4.1 million, or 2%, during the three months ended September 30, 2022, as compared to the same period in 2021.

- The divestiture resulted in a \$3.0 million decrease in SaaS and PaaS revenue for the three months ended September 30, 2022.
- The impact of foreign currencies weakening against the U.S. dollar resulted in a \$2.1 million decrease in SaaS and PaaS revenue during the three months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of the divestiture and foreign currency, SaaS and PaaS revenue for the three months ended September 30, 2022, increased \$9.2 million, or 5%, as compared to the same period in 2021.
- The increase was primarily driven by new customer go-lives and higher transaction volumes during the three months ended September 30, 2022, as compared to the same period in 2021.

License Revenue

Customers purchase the right to use 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 \$10.8 million, or 20%, during the three months ended September 30, 2022, as compared to the same period in 2021.

- The impact of foreign currencies weakening against the U.S. dollar resulted in a \$0.5 million decrease in license revenue during the three months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of foreign currency, license revenue for the three months ended September 30, 2022, decreased \$10.3 million, or 19%, as compared to the same period in 2021.
- The decrease was primarily driven by the renewal timing and relative size of license and capacity events during the three months ended September 30, 2022, as compared to the same period in 2021.

Maintenance Revenue

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

Maintenance revenue decreased \$4.4 million, or 8%, during the three months ended September 30, 2022, as compared to the same period in 2021.

- The divestiture resulted in a \$1.0 million decrease in maintenance revenue for the three months ended September 30, 2022.
- The impact of foreign currencies weakening against the U.S. dollar resulted in a \$2.4 million decrease in maintenance revenue during the three months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of the divestiture and foreign currency, maintenance revenue for the three months ended September 30, 2022, decreased \$1.0 million or 2%, as compared to the same period in 2021.

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 \$0.7 million, or 4%, during the three months ended September 30, 2022, as compared to the same period in 2021.

- The divestiture resulted in a \$1.6 million decrease in services revenue for the three months ended September 30, 2022.
- The impact of foreign currencies weakening against the U.S. dollar resulted in a \$0.7 million decrease in services revenue during the three months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of the divestiture and foreign currency, services revenue for the three months ended September 30, 2022, increased \$3.0 million, or 17%, as compared to the same period in 2021.
- The increase was primarily driven by the timing and magnitude of project-related work during the three months ended September 30, 2022, as compared to the same period in 2021.

Operating Expenses

Total operating expenses for the three months ended September 30, 2022, increased \$14.2 million, or 5%, as compared to the same period in 2021.

- During the three months ended September 30, 2022, there was a \$2.6 million reduction in operating expenses related to the divestiture.
- Total operating expenses for the three months ended September 30, 2022, included \$1.7 million of European data center migration expenses and \$1.2 million of divestiture transaction-related expenses during the period compared to \$6.0 million of significant transaction-related and cost reduction strategies implemented for the same period in 2021.
- The impact of foreign currencies weakening against the U.S. dollar resulted in a \$5.8 million decrease in total operating expenses during the three months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of the divestiture, significant transaction-related expenses, and foreign currency, total operating expenses for the three months ended September 30, 2022, increased \$25.5 million, or 9%, as compared to the same period in 2021.

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 \$13.0 million, or 8%, during the three months ended September 30, 2022, as compared to the same period in 2021.

- During the three months ended September 30, 2022, there was a \$2.4 million reduction in cost of revenue related to the divestiture.
- The impact of foreign currencies weakening against the U.S. dollar resulted in a \$2.2 million decrease in cost of revenue during the three months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of the divestiture and foreign currency, cost of revenue increased \$17.7 million, or 11%, for the three months ended September 30, 2022, as compared to the same period in 2021.
- The increase was primarily due to higher personnel and related expenses and payment card interchange and processing fees of \$8.6 million and \$10.6 million, respectively, partially offset by a decrease in software amortization expense of \$1.5 million.

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 \$0.7 million, or 2%, during the three months ended September 30, 2022, as compared to the same period in 2021.

- During the three months ended September 30, 2022, there was a \$0.2 million reduction in R&D expense related to the divestiture.
- Total R&D expenses for the three months ended September 30, 2021, included \$0.9 million of expense related to significant transactions and cost reduction strategies implemented during the period.
- The impact of foreign currencies weakening against the U.S. dollar resulted in a \$1.1 million decrease in R&D expense during the three months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of the divestiture, significant transaction-related expenses, and foreign currency, R&D expense increased \$2.8 million, or 9%, for the three months ended September 30, 2022, as compared to the same period in 2021.
- The increase was primarily due to higher personnel and related expenses and professional fees of \$1.0 million and \$1.8 million, respectively.

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 decreased \$0.6 million, or 2%, during the three months ended September 30, 2022, as compared to the same period in 2021.

- The impact of foreign currencies weakening against the U.S. dollar resulted in a \$1.3 million decrease in selling and marketing expense during the three months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of foreign currency, selling and marketing expense increased \$0.7 million, or 2%, for the three months ended September 30, 2022, as compared to the same period in 2021.

General and Administrative

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

General and administrative expense increased \$0.8 million, or 3%, during the three months ended September 30, 2022, as compared to the same period in 2021.

- General and administrative expenses for the three months ended September 30, 2022, included \$1.2 million of divestiture transaction-related expenses and \$1.7 million of European data center migration expenses compared to \$5.0 million of significant transaction-related and cost reduction strategies implemented in the same period in 2021.
- The impact of foreign currencies weakening against the U.S. dollar resulted in a \$0.7 million decrease in general and administrative expense during the three months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of significant transaction-related expenses and foreign currency, general and administrative expense increased \$3.6 million, or 15%, for the three months ended September 30, 2022, as compared to the same period in 2021.
- The increase is primarily due to higher personnel and related expenses and professional fees of \$2.5 million and \$1.1 million, respectively.

Depreciation and Amortization

Depreciation and amortization increased \$0.3 million, or 1%, during the three months ended September 30, 2022, as compared to the same period in 2021.

Other Income and Expense

Interest expense for the three months ended September 30, 2022, increased \$3.1 million, or 28%, as compared to the same period in 2021, primarily due to higher interest rates.

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, 2022, increased \$0.2 million, or 6%, as compared to the same period in 2021.

Other, net is primarily comprised of foreign currency transaction gains and losses. During the three months ended September 30, 2022, other, net also included a \$38.5 million gain from the divestiture. Other, net was \$41.5 million of income and \$1.1 million of expense for the three months ended September 30, 2022 and 2021, respectively.

Income Taxes

See Note 11, *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, 2022 Compared to the Nine Month Period Ended September 30, 2021

	Nine Months Ended September 30,				2021	
	2022		2021		2021	
	Amount	% of Total Revenue	\$ Change vs 2021	% Change vs 2021	Amount	% of Total Revenue
Revenues:						
Software as a service and platform as a service	\$ 597,080	62 %	\$ 13,550	2 %	\$ 583,530	65 %
License	168,260	16 %	57,877	52 %	110,383	11 %
Maintenance	151,143	16 %	(7,894)	(5)%	159,037	18 %
Services	53,613	6 %	2,794	5 %	50,819	6 %
Total revenues	<u>970,096</u>	<u>100 %</u>	<u>66,327</u>	<u>7 %</u>	<u>903,769</u>	<u>100 %</u>
Operating expenses:						
Cost of revenue	517,372	53 %	40,561	9 %	476,811	53 %
Research and development	114,348	12 %	9,557	9 %	104,791	12 %
Selling and marketing	102,793	11 %	12,582	14 %	90,211	10 %
General and administrative	84,753	9 %	(4,676)	(5)%	89,429	10 %
Depreciation and amortization	95,218	10 %	(216)	— %	95,434	11 %
Total operating expenses	<u>914,484</u>	<u>95 %</u>	<u>57,808</u>	<u>7 %</u>	<u>856,676</u>	<u>96 %</u>
Operating income	55,612	5 %	8,519	18 %	47,093	4 %
Other income (expense):						
Interest expense	(37,014)	(4)%	(3,071)	9 %	(33,943)	(4)%
Interest income	9,205	1 %	652	8 %	8,553	1 %
Other, net	45,801	5 %	46,837	(4,521)%	(1,036)	— %
Total other income (expense)	<u>17,992</u>	<u>2 %</u>	<u>44,418</u>	<u>(168)%</u>	<u>(26,426)</u>	<u>(3)%</u>
Income before income taxes	73,604	7 %	52,937	256 %	20,667	1 %
Income tax expense	21,655	2 %	19,308	823 %	2,347	— %
Net income	<u>\$ 51,949</u>	<u>5 %</u>	<u>\$ 33,629</u>	<u>184 %</u>	<u>\$ 18,320</u>	<u>1 %</u>

Revenues

Total revenue for the nine months ended September 30, 2022, increased \$66.3 million, or 7%, as compared to the same period in 2021.

- The divestiture resulted in a \$5.6 million decrease in total revenue for the nine months ended September 30, 2022.
- The impact of certain foreign currencies weakening against the U.S. dollar resulted in a \$11.8 million decrease in total revenue during the nine months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of the divestiture and foreign currency, total revenue for the nine months ended September 30, 2022, increased \$83.8 million, or 9%, as compared to the same period in 2021.

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

SaaS and PaaS revenue increased \$13.6 million, or 2%, during the nine months ended September 30, 2022, as compared to the same period in 2021.

- The divestiture resulted in a \$3.0 million decrease in SaaS and PaaS revenue for the nine months ended September 30, 2022.
- The impact of certain foreign currencies weakening against the U.S. dollar resulted in \$4.7 million decrease in SaaS and PaaS revenue during the nine months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of the divestiture and foreign currency, SaaS and PaaS revenue for the nine months ended September 30, 2022, increased \$21.2 million, or 4%, as compared to the same period in 2021.
- The increase was primarily due to new customer go-lives and higher transaction volumes during the nine months ended September 30, 2022, as compared to the same period in 2021.

License Revenue

License revenue increased \$57.9 million, or 52%, during the nine months ended September 30, 2022, as compared to the same period in 2021.

- The impact of certain foreign currencies weakening against the U.S. dollar resulted in a \$1.2 million decrease in license revenue during the nine months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of foreign currency, license revenue for the nine months ended September 30, 2022, increased \$59.1 million, or 54%, as compared to the same period in 2021.
- The increase was primarily driven by renewal timing and relative size of license and capacity events during the nine months ended September 30, 2022, as compared to the same period in 2021.

Maintenance Revenue

Maintenance revenue decreased \$7.9 million or 5% during the nine months ended September 30, 2022, as compared to the same period in 2021.

- The divestiture resulted in a \$1.0 million decrease in maintenance revenue for the nine months ended September 30, 2022.
- The impact of certain foreign currencies weakening against the U.S. dollar resulted in a \$4.8 million decrease in maintenance revenue during the nine months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of the divestiture and foreign currency, maintenance revenue for the nine months ended September 30, 2022, decreased \$2.2 million, or 1%, as compared to the same period in 2021.

Services Revenue

Services revenue increased \$2.8 million, or 5%, during the nine months ended September 30, 2022, as compared to the same period in 2021.

- The divestiture resulted in a \$1.6 million decrease in services revenue for the nine months ended September 30, 2022.
- The impact of certain foreign currencies weakening against the U.S. dollar resulted in a \$1.2 million decrease in services revenue during the nine months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of the divestiture and foreign currency, services revenue for the nine months ended September 30, 2022, increased \$5.6 million, or 11%, as compared to the same period in 2021.
- The increase was primarily driven by the timing and magnitude of project-related work during the nine months ended September 30, 2022, as compared to the same period in 2021.

Operating Expenses

Total operating expenses for the nine months ended September 30, 2022, increased \$57.8 million, or 7%, as compared to the same period in 2021.

- During the nine months ended September 30, 2022, there was a \$2.6 million reduction in operating expenses related to the divestiture.
- Total operating expenses for the nine months ended September 30, 2022, included \$3.4 million of European data center migration expenses and \$2.6 million of divestiture transaction-related expenses during the period. Total operating expenses for the nine months ended September 30, 2021, included \$10.5 million of significant transaction-related expenses associated with cost reduction strategies implemented during the period.
- The impact of certain foreign currencies weakening against the U.S. dollar resulted in a \$12.4 million decrease in total operating expenses for the nine months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of the divestiture, significant transaction-related expenses, and foreign currency, total operating expenses for the nine months ended September 30, 2022, increased \$77.3 million, or 9%, as compared to the same period in 2021.

Cost of Revenue

Cost of revenue increased \$40.6 million, or 9%, during the nine months ended September 30, 2022, as compared to the same period in 2021.

- During the nine months ended September 30, 2022, there was a \$2.4 million reduction in cost of revenue related to the divestiture
- The impact of certain foreign currencies weakening against the U.S. dollar resulted in a \$4.8 million decrease in cost of revenue during the nine months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of the divestiture and foreign currency, cost of revenue increased \$47.8 million, or 10%, for the nine months ended September 30, 2022, as compared to the same period in 2021.
- The increase was primarily due to higher personnel and related expenses and payment card interchange and processing fees of \$19.2 million and \$32.8 million, respectively, partially offset by a decrease in software amortization expense of \$4.2 million.

Research and Development

R&D expense increased \$9.6 million, or 9%, during the nine months ended September 30, 2022, as compared to the same period in 2021.

- During the nine months ended September 30, 2022, there was a \$0.2 million reduction in R&D expense related to the divestiture.
- Total R&D expenses for the nine months ended September 30, 2021 included \$1.9 million of significant transaction-related expenses.
- The impact of certain foreign currencies weakening against the U.S. dollar resulted in a \$2.5 million decrease in R&D expense during the nine months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of the divestiture, foreign currency, and significant transaction-related expenses, R&D expense increased \$14.1 million, or 14%, for the nine months ended September 30, 2022, as compared to the same period in 2021.
- The increase was primarily due to higher personnel and related expenses and professional fees of \$7.3 million and \$6.8 million, respectively.

Selling and Marketing

Selling and marketing expense increased \$12.6 million, or 14%, during the nine months ended September 30, 2022, as compared to the same period in 2021.

- The impact of certain foreign currencies weakening against the U.S. dollar resulted in a \$2.5 million decrease in selling and marketing expense for the nine months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of foreign currency, selling and marketing expense increased \$15.1 million, or 17%, for the nine months ended September 30, 2022, as compared to the same period in 2021.
- The increase was primarily due to higher personnel and related expenses and travel and entertainment expenses of \$12.1 million and \$3.0 million, respectively.

General and Administrative

General and administrative expense decreased \$4.7 million, or 5%, during the nine months ended September 30, 2022, as compared to the same period in 2021.

- General and administrative expenses for the nine months ended September 30, 2022 included \$3.4 million of European data center migration expenses and \$2.6 million of divestiture transaction-related expenses during the period. General and administrative expense for the nine months ended September 30, 2021, included \$8.7 million of significant transaction-related expenses associated with cost reduction strategies implemented during the period.
- The impact of certain foreign currencies weakening against the U.S. dollar resulted in a \$1.7 million decrease in general and administrative expenses during the nine months ended September 30, 2022, as compared to the same period in 2021.
- Adjusted for the impact of significant transaction-related expenses and foreign currency, general and administrative expense decreased \$0.4 million for the nine months ended September 30, 2022, as compared to the same period in 2021.

Depreciation and Amortization

Depreciation and amortization decreased \$0.2 million during the nine months ended September 30, 2022, as compared to the same period in 2021.

Other Income and Expense

Interest expense for the nine months ended September 30, 2022, increased \$3.1 million, or 9%, as compared to the same period in 2021, primarily due to higher interest rates.

Interest income for the nine months ended September 30, 2022, increased \$0.7 million, or 8%, as compared to the same period in 2021.

Other, net is primarily comprised of foreign currency transaction gains and losses. During the nine months ended September 30, 2022, other, net also included a \$38.5 million gain from the divestiture. Other, net was \$45.8 million of income and \$1.0 million of expense for the nine months ended September 30, 2022 and 2021, respectively.

Income Taxes

See Note 11, *Income Taxes*, to our unaudited condensed consolidated financial statements in Part I of this Form 10-Q for additional information.

Segment Results

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue				
Banks	\$ 117,439	\$ 131,744	\$ 391,583	\$ 341,712
Merchants	35,609	38,989	113,145	115,083
Billers	153,543	\$ 146,181	465,368	446,974
Total revenue	\$ 306,591	\$ 316,914	\$ 970,096	\$ 903,769
Segment Adjusted EBITDA				
Banks	\$ 49,793	\$ 67,602	\$ 184,667	\$ 159,262
Merchants	9,781	14,221	32,243	41,987
Billers	26,348	31,969	81,029	100,593
Depreciation and amortization	(32,140)	(33,380)	(95,869)	(100,366)
Stock-based compensation expense	(7,126)	(6,367)	(21,884)	(20,790)
Corporate and unallocated expenses	(43,167)	(46,066)	(124,574)	(133,593)
Interest, net	(11,341)	(8,374)	(27,809)	(25,390)
Other, net	41,545	(1,088)	45,801	(1,036)
Income (loss) before income taxes	\$ 33,693	\$ 18,517	\$ 73,604	\$ 20,667

The Banks Segment Adjusted EBITDA decreased \$3.1 million due to the divestiture. Excluding the divestiture, Banks Segment Adjusted EBITDA decreased \$14.8 million for the three months ended September 30, 2022, compared to the same period in 2021, due to a \$8.7 million decrease in revenue primarily related to a decrease in license revenues and a \$6.1 million increase in cash operating expense.

Merchants Segment Adjusted EBITDA decreased \$4.4 million for the three months ended September 30, 2022, compared to the same period in 2021, due to a \$3.4 million decrease in revenue and a \$1.0 million increase in cash operating expense.

Billers Segment Adjusted EBITDA decreased \$5.6 million for the three months ended September 30, 2022, compared to the same period in 2021, due to a \$13.0 million increase in cash operating expense primarily for payment card interchange and other processing fees, partially offset by a \$7.4 million increase in revenue.

The Banks Segment Adjusted EBITDA decreased \$3.1 million due to the divestiture. Excluding the divestiture, Banks Segment Adjusted EBITDA increased \$28.5 million for the nine months ended September 30, 2022, compared to the same period in 2021, due to a \$55.5 million increase in revenue primarily related to an increase in license revenues, partially offset by a \$27.0 million increase in cash operating expense.

Merchants Segment Adjusted EBITDA decreased \$9.7 million for the nine months ended September 30, 2022, compared to the same period in 2021, due to a \$1.9 million decrease in revenue and a \$7.8 million increase in cash operating expense.

Billers Segment Adjusted EBITDA decreased \$19.6 million for the nine months ended September 30, 2022, compared to the same period in 2021, due to a \$38.0 million increase in cash operating expense, primarily for payment card interchange and other processing fees, partially offset by an \$18.4 million increase in revenue.

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 over the next 12 months and beyond.

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less. As of September 30, 2022, we had \$134.8 million of cash and cash equivalents, of which \$32.4 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, 2022, 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, 2022.

Available Liquidity

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

	September 30, 2022	December 31, 2021
Cash and cash equivalents	\$ 134,799	\$ 122,059
Availability under revolving credit facility	488,500	498,500
Total liquidity	<u>\$ 623,299</u>	<u>\$ 620,559</u>

The increase in total liquidity is primarily attributable to net proceeds of \$100.1 million from the divestiture, partially offset by \$90.9 million paid for stock repurchases.

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, 2022, the full \$75.0 million was available.

Stock Repurchase Program

Our board approved a stock repurchase program authorizing the Company, as market and business conditions warrant, to acquire its common stock and periodically authorizes additional funds for the program. In December 2021, the board approved the repurchase of the Company's common stock of up to \$250.0 million in place of the remaining purchase amounts previously authorized.

We repurchased 3,210,313 shares for \$90.9 million under the program during the nine months ended September 30, 2022. Under the program to date, we have repurchased 52,567,808 shares for approximately \$810.6 million. As of September 30, 2022, the maximum remaining amount authorized for purchase under the stock repurchase program was approximately \$125.4 million. See Note 7, *Common Stock and Treasury Stock*, to our unaudited condensed consolidated financial statements in Part I of this Form 10-Q for additional information.

Cash Flows

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

	Nine Months Ended September 30,	
	2022	2021
Net cash provided by (used by):		
Operating activities	\$ 101,966	\$ 144,483
Investing activities	73,622	(33,009)
Financing activities	(143,008)	(194,335)

Cash Flows from Operating Activities

The primary source of operating cash flows is cash collections from our customers for purchase and renewal of licensed software products and various services including software and platform as a service, maintenance, and other professional services. Our primary uses of operating cash flows includes employee expenditures, taxes, interest payments, and leased facilities.

Cash flows provided by operating activities were \$42.5 million lower for the nine months ended September 30, 2022, compared to the same period in 2021, primarily due to timing of cash receipts on accounts receivable. 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

The changes in cash flows from investing activities primarily relate to the timing of our purchases and investments in capital and other assets, including strategic acquisitions, that support our growth.

During the first nine months of 2022, we received net proceeds of \$100.1 million from the divestiture. In addition, we used cash of \$26.5 million to purchase software, property, and equipment, as compared to \$33.0 million during the same period in 2021.

Cash Flows from Financing Activities

The changes in cash flows from financing activities primarily relate to borrowings and repayments related to our debt instruments and other debt, stock repurchases, and net proceeds related to employee stock programs.

During the first nine months of 2022, we used the proceeds from the divestiture to partially fund repayments of \$70.8 million on the Term Loans and \$10.1 million of other debt payments. In addition, we used \$90.9 million to repurchase common stock and \$5.8 million for the repurchase of stock-based compensation awards for tax withholdings. We received net proceeds of \$10.0 million on the Revolving Credit Facility, proceeds of \$4.6 million from the exercise of stock options and the issuance of common stock under our 2017 Employee Stock Purchase Plan, as amended, and \$20.1 million from settlement assets and liabilities due to processing timing. During the first nine months of 2021, we repaid \$55.0 million on the Revolving Credit Facility, \$29.2 million on the Term Loans, and \$10.2 million on other debt. In addition, we used \$39.4 million to repurchase common stock, \$14.8 million for the repurchase of stock-based compensation awards for tax withholdings, and \$55.5 million for settlement assets and liabilities due to processing timing. We 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.

Contractual Obligations and Commercial Commitments

For the nine months ended September 30, 2022, 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, 2021.

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, 2022, 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, 2021, 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, inflationary pressures, 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, 2022. 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 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, 2022, 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 \$1.0 billion of debt outstanding as of September 30, 2022, with \$617.3 million outstanding under our Credit Facility and \$400.0 million in 2026 Notes. Our Credit Facility has a floating rate, which was 4.88% as of September 30, 2022. 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 \$3.0 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, 2022.

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, 2022, 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 12, *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, 2021, 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.

Recent events in eastern Europe present challenges and risks to us, and no assurances can be given that current or future developments would not have a material adverse effect on our business, results of operations and financial condition.

The crisis in eastern Europe continues to be a challenge to global companies, including us. We have an office with 67 employees in Russia and a customer in Russia. The U.S. and other global governments have placed restrictions on how companies may transact with, and provide services or solutions to, parties in these regions, particularly Russia, Belarus and restricted areas in Ukraine. Because of these restrictions, we have augmented the services and solutions we provide to our customer in Russia and the manner in which we support our employees in Russia. These decisions, which are in line with the approach of other companies in our industry, help us comply with our obligations under the various requirements in the U.S. and around the world. While it is difficult to estimate the impact on our business and financial position of our augmented operations with respect to businesses in Russia, Belarus and the restricted areas in Ukraine and the current or future sanctions, such changes could have adverse impacts on us in future periods. In addition, no assurances can be given that additional developments in the impacted regions, and responses thereto from the U.S. and other global governments, would not have a material adverse effect on our business, results of operations and financial condition.

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, 2022:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
July 1, 2022 through July 31, 2022	297,700	\$ 26.95	297,700	\$ 145,577,000
August 1, 2022 through August 31, 2022	376,045	25.78	376,045	135,883,000
September 1, 2022 through September 30, 2022	481,864 (1)	21.84	481,080	125,375,000
Total	1,155,609	\$ 24.44	1,154,825	

(1) Pursuant to our 2016 and 2020 Equity and Performance Incentive Plan, we granted RSUs. Under each arrangement, shares are issued without direct cost to the employee. During the three months ended September 30, 2022, 2,607 shares of RSUs vested. We withheld 784 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 December 2021, the board approved the repurchase of the Company's common stock of up to \$250.0 million, in place of the remaining purchase amounts previously authorized. As of September 30, 2022, the maximum remaining amount authorized for purchase under the stock repurchase program was approximately \$125.4 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:

Exhibit No.	Description
3.01	(1) ACI Worldwide, Inc. Restated Certificate of Incorporation
3.02	(2) ACI Worldwide, Inc. Amended and Restated Bylaws of the Company
4.01	(3) Form of Common Stock Certificate (P)
10.01	(4)* Form of Severance Compensation Agreement (Renewal) between the Company and certain officers, including executive officers
31.01	Certification of Principal Executive Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Principal Financial Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.01	** Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.02	** Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document - 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 April 1, 2022.

(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 April 19, 2022.

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 2, 2022

/s/ ODILON ALMEIDA

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 2, 2022

/s/ SCOTT W. BEHRENS

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, 2022, 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 2, 2022

/s/ ODILON ALMEIDA

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, 2022, 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 2, 2022

/s/ SCOTT W. BEHRENS

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