ACXIOM CORP
Form 10-Q
November 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from ----- to -----

Commission file number 0-13163

Acxiom Corporation
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	71-0581897

(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
P.O. Box 8190, 601 E. Third Street,	
Little Rock, Arkansas	72203-8190
(Address of Principal Executive Offices)	(Zip Code)

(501) 342-1000

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

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

Large accelerated filer [X] Accelerated filer [ ]

Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

The number of shares of common stock, $ 0.10 par value per share, outstanding as of November 4, 2016 was 77,468,461.

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ACXIOM CORPORATION AND SUBSIDIARIES

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REPORT ON FORM 10-Q

September 30, 2016

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ACXIOM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	September 30, 2016 (Unaudited)	March 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 175,409	$ 189,629
Trade accounts receivable, net	130,509	138,650
Refundable income taxes	5,347	9,834
Other current assets	42,916	37,897
Total current assets	354,181	376,010
Property and equipment, net of accumulated depreciation and amortization	174,936	183,043
Software, net of accumulated amortization	45,048	55,735
Goodwill	487,055	492,745
Purchased software licenses, net of accumulated amortization	8,792	10,116
Deferred income taxes	10,038	6,885
Other assets, net	22,007	25,315
	$ 1,102,057	$ 1,149,849
LIABILITIES AND EQUITY		
Current liabilities:		
Current installments of long-term debt	$ 32,281	$ 32,243
Trade accounts payable	36,300	37,717
Accrued expenses		
Payroll	35,413	61,309
Other	46,581	48,254
Deferred revenue	33,394	44,477
Total current liabilities	183,969	224,000
Long-term debt	142,341	157,897
Deferred income taxes	53,532	53,964
Other liabilities	14,727	15,020
Commitments and contingencies		

Equity:		
Common stock	13,190	13,039
Additional paid-in capital	1,115,194	1,082,220
Retained earnings	609,617	598,501
Accumulated other comprehensive income	7,616	8,590
Treasury stock, at cost	(1,038,129)	(1,003,382)
Total equity	707,488	698,968
	$ 1,102,057	$ 1,149,849

See accompanying notes to condensed consolidated financial statements.

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ACXIOM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except per share amounts)

	For the Three months ended September 30,	
	2016	2015
Revenues	$217,267	$207,345
Cost of revenue	120,105	121,312
Gross profit	97,162	86,033
Operating expenses:		
Research and development	19,029	19,078
Sales and marketing	37,847	34,259
General and administrative	32,866	31,519
Impairment of goodwill and other assets	—	729
Gains, losses and other items, net	300	2,504
Total operating expenses	90,042	88,089
Income (loss) from operations	7,120	(2,056)
Other income (expense):		
Interest expense	(1,689)	(1,956)
Other, net	(207)	59
Total other expense	(1,896)	(1,897)
Income (loss) from continuing operations before income taxes	5,224	(3,953)
Income taxes (benefit)	(1,916)	(2,608)
Net earnings (loss) from continuing operations	7,140	(1,345)
Earnings from discontinued operations, net of tax	—	12,068
Net earnings	$7,140	$10,723
Basic earnings (loss) per share:		
Net earnings (loss) from continuing operations	$0.09	$(0.02)
Net earnings from discontinued operations	—	0.15
Net earnings	$0.09	$0.14
Diluted earnings (loss) per share:		
Net earnings (loss) from continuing operations	$0.09	$(0.02)
Net earnings from discontinued operations	—	0.15
Net earnings	$0.09	$0.14

Some earnings per share amounts may not add due to rounding.

See accompanying notes to condensed consolidated financial statements.

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ACXIOM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except per share amounts)

	For the Six months ended September 30,	
	2016	2015
Revenues	$432,068	$404,240
Cost of revenue	242,924	239,021
Gross profit	189,144	165,219
Operating expenses:		
Research and development	37,681	39,089
Sales and marketing	75,195	63,753
General and administrative	60,372	63,262
Impairment of goodwill and other assets	—	729
Gains, losses and other items, net	614	3,311
Total operating expenses	173,862	170,144
Income (loss) from operations	15,282	(4,925)
Other income (expense):		
Interest expense	(3,501)	(3,841)
Other, net	100	363
Total other expense	(3,401)	(3,478)
Income (loss) from continuing operations before income taxes	11,881	(8,403)
Income taxes (benefit)	765	(1,876)
Net earnings (loss) from continuing operations	11,116	(6,527)
Earnings from discontinued operations, net of tax	—	16,211
Net earnings	$11,116	$9,684
Basic earnings (loss) per share:		
Net earnings (loss) from continuing operations	$0.14	$(0.08)
Net earnings from discontinued operations	—	0.21
Net earnings	$0.14	$0.12
Diluted earnings (loss) per share:		
Net earnings (loss) from continuing operations	$0.14	$(0.08)
Net earnings from discontinued operations	—	0.21
Net earnings	$0.14	$0.12

Some earnings per share amounts may not add due to rounding.

See accompanying notes to condensed consolidated financial statements.

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ACXIOM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)

	For the Three months ended September 30,	
	2016	2015
Net earnings	$7,140	$10,723
Other comprehensive income (loss):		
Change in foreign currency translation adjustment	(65)	(2,392)
Unrealized gain (loss) on interest rate swap	91	(81)
Other comprehensive income (loss)	26	(2,473)
Comprehensive income	$7,166	$8,250

See accompanying notes to condensed consolidated financial statements.

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ACXIOM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)

	For the Six months ended September 30,	
	2016	2015
Net earnings	$11,116	$9,684
Other comprehensive income (loss):		
Change in foreign currency translation adjustment	(1,070)	(1,674)
Unrealized gain (loss) on interest rate swap	96	(70)
Other comprehensive loss	(974)	(1,744)
Comprehensive income	$10,142	$7,940

See accompanying notes to condensed consolidated financial statements.

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ACXIOM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

SIX MONTHS ENDED SEPTEMBER 30, 2016

(Unaudited)

(Dollars in thousands)

	Common Stock Number of shares	Amount	Additional paid-in Capital	Retained earnings	Accumulated other comprehensive income	Treasury Stock Number of shares	Amount	Total Equity
Balances at March 31, 2016	130,390,106	$13,039	$1,082,220	$598,501	$8,590	(53,030,682)	$(1,003,382)	$698,968
Employee stock awards, benefit plans and other issuances	718,518	72	11,433	—	—	(191,496)	(4,205)	7,300
Tax impact of stock options and restricted stock	—	—	1,116	—	—	—	—	1,116
Non-cash stock-based compensation	27,236	2	20,502	—	—	—	—	20,504
Restricted stock units vested	767,672	77	(77)	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	—	(1,314,840)	(30,542)	(30,542)
Comprehensive income (loss):								
Foreign currency translation	—	—	—	—	(1,070)	—	—	(1,070)
Unrealized gain on interest rate swap	—	—	—	—	96	—	—	96
Net earnings	—	—	—	11,116	—	—	—	11,116
Balances at September 30, 2016	131,903,532	$13,190	$1,115,194	$609,617	$7,616	(54,537,018)	$(1,038,129)	$707,488

See accompanying notes to condensed consolidated financial statements

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ACXIOM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	For the Six months ended September 30, 2016	2015
Cash flows from operating activities:		
Net earnings	$11,116	$9,684
Earnings from discontinued operations, net of tax	—	(16,211)
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	41,150	42,410
Loss (gain) on disposal or impairment of assets	(629)	161
Impairment of goodwill and other assets	—	729
Deferred income taxes	(6,539)	284
Non-cash stock-based compensation expense	20,504	15,483
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,564)	(9,281)
Other assets	3,679	(2,021)
Accounts payable and other liabilities	(21,780)	(10,336)
Deferred revenue	(9,705)	2,452
Net cash provided by operating activities	36,232	33,354
Cash flows from investing activities:		
Capitalized software development costs	(7,875)	(6,733)
Capital expenditures	(20,539)	(23,120)
Data acquisition costs	(267)	(711)
Net cash received from disposition	16,988	—
Net cash used in investing activities	(11,693)	(30,564)
Cash flows from financing activities:		
Payments of debt	(16,111)	(71,138)
Sale of common stock, net of stock acquired for withholding taxes	7,300	4,102
Excess tax benefits from stock-based compensation	1,415	(552)
Acquisition of treasury stock	(30,542)	(27,261)
Net cash used in financing activities	(37,938)	(94,849)
Net cash used in continuing operations	(13,399)	(92,059)
Cash flows from discontinued operations:		
Net cash provided by operating activities	—	9,715
Net cash provided by investing activities	—	122,831
Net cash used in financing activities	—	(206)

Net cash provided by discontinued operations	—	132,340
Net cash provided by (used in) continuing and discontinued operations	(13,399)	40,281
Effect of exchange rate changes on cash	(821)	(346)
Net change in cash and cash equivalents	(14,220)	39,935
Cash and cash equivalents at beginning of period	189,629	141,010
Cash and cash equivalents at end of period	$175,409	$180,945

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

(Dollars in thousands)

	For the Six months ended September 30,	
	2016	2015
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$3,962	$4,337
Income taxes, net of refunds	197	5,266
Prepayment of debt	—	55,000
Payments on capital leases and installment payment arrangements	—	63
Payments on capital leases and installment payment arrangements of discontinued operations	—	206
Other debt payments	16,111	16,075

See accompanying notes to condensed consolidated financial statements.

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ACXIOM CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1.BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

These condensed consolidated financial statements have been prepared by Acxiom Corporation (“Registrant,” “Acxiom”, we, us or the “Company”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC” or the “Commission”). In the opinion of the Registrant’s management, all adjustments necessary for a fair presentation of the results for the periods included have been made, and the disclosures are adequate to make the information presented not misleading. All such adjustments are of a normal recurring nature. Certain note information has been omitted because it has not changed significantly from that reflected in Notes 1 through 18 of the Notes to Consolidated Financial Statements filed as part of Item 8 of the Registrant’s annual report on Form 10-K for the fiscal year ended March 31, 2016 (“2016 Annual Report”), as filed with the Commission on May 27, 2016. This quarterly report and the accompanying condensed consolidated financial statements should be read in connection with the 2016 Annual Report. The financial information contained in this quarterly report is not necessarily indicative of the results to be expected for any other period or for the full fiscal year ending March 31, 2017.

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”). Actual results could differ from those estimates. Certain of the accounting policies used in the preparation of these condensed consolidated financial statements are complex and require management to make judgments and/or significant estimates regarding amounts reported or disclosed in these financial statements. Additionally, the application of certain of these accounting policies is governed by complex accounting principles and their interpretation. A discussion of the Company’s significant accounting principles and their application is included in Note 1 of the Notes to Consolidated Financial Statements and in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, of the Company’s 2016 Annual Report.

Unless otherwise indicated, information in these notes to the condensed consolidated financial statements relates to continuing operations.

Accounting Pronouncements Adopted During the Current Year

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows: Clarification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). The new standard eliminates the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows by adding or clarifying guidance on eight specific cash flow issues, including payments for debt prepayments or extinguishments. ASU 2016-15 is effective for annual and interim reporting periods beginning after December 15, 2017 (fiscal 2019 for the Company) and early adoption is permitted. ASU 2016-15 provides for retrospective application for all periods presented. We early adopted the new standard during the current fiscal quarter ended September 30, 2016. Early adoption did not result in any changes to our existing accounting policies, presentation of items in our condensed consolidated statements of cash flows, or any changes resulting from the retrospective application to all periods reported.

Recent Accounting Pronouncements Not Yet Adopted

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting as part of its simplification initiative. The objective of the simplification initiative is to identify, evaluate, and improve areas of U.S. GAAP for which cost and complexity can be reduced while maintaining the usefulness of the information provided to users of financial statements. The areas for simplification in ASU 2016-09 involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for

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annual periods beginning after December 15, 2016 (fiscal 2018 for the Company), including interim periods within those fiscal years. Earlier adoption is permitted. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial condition, results of operations and cash flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), as a comprehensive new standard that amends various aspects of existing guidance for leases and requires additional disclosures about leasing arrangements. The new standard will require lessees to recognize lease assets and lease liabilities for those leases classified as operating leases under previous guidance, ASC 840, Leases. ASU 2016-02 creates a new Topic, ASC 842, Leases. This new Topic retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. ASU 2016-02 is effective for annual periods beginning after December 15, 2018 (fiscal 2020 for the Company), including interim periods within those fiscal years. Earlier adoption is permitted. In the financial statements in which the ASU is first applied, leases shall be measured and recognized at the beginning of the earliest comparative period presented with an adjustment to equity. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial condition, results of operations and cash flows.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606, to supersede nearly all existing revenue recognition guidance under U.S. GAAP, as well as some cost guidance and guidance on certain gains and losses. The FASB also issued ASU 2016-08, Revenue from Contracts with Customers – Principal versus Agent Considerations, and ASU 2016-10, Revenue from Contracts with Customers – Identifying Performance Obligations and Licensing. The core principle of the new guidance is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The guidance defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation, among other areas. The effective date for the update has been deferred until fiscal 2019 for the Company, with early application allowed for fiscal 2018. Adoption of the update may be applied using either of two methods: (i) retrospective application to each prior reporting period presented with the option to elect certain practical expedients; or (ii) retrospective application with the cumulative effect recognized at the date of initial application and providing certain additional disclosures. The Company has completed its assessment phase of the new standard and commenced the design phase. The Company cannot currently estimate the financial statement impact of adoption.

The Company does not anticipate that the adoption of any other recent accounting pronouncements will have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

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2.EARNINGS (LOSS) PER SHARE AND STOCKHOLDERS' EQUITY:

Earnings (Loss) Per Share

A reconciliation of the numerator and denominator of basic and diluted earnings (loss) per share is shown below (in thousands, except per share amounts):

	For the quarter ended September 30,		For the six months ended September 30,	
	2016	2015	2016	2015
Basic earnings (loss) per share:				
Net income (loss) from continuing operations	$7,140	$(1,345)	$11,116	$(6,527)
Net earnings from discontinued operations, net of tax	—	12,068	—	16,211
Net earnings	$7,140	$10,723	$11,116	$9,684
Basic weighted-average shares outstanding	77,446	77,960	77,459	77,939
Basic earnings (loss) per share:				
Continuing operations	$0.09	$(0.02)	$0.14	$(0.08)
Discontinued operations	—	0.15	—	0.21
Net earnings	$0.09	$0.14	$0.14	$0.12
Diluted earnings (loss) per share:				
Basic weighted-average shares outstanding	77,446	77,960	77,459	77,939
Dilutive effect of common stock options, warrants, and restricted stock as computed under the treasury stock method	1,831	—	1,858	—
Diluted weighted-average shares outstanding	79,277	77,960	79,317	77,939
Diluted earnings (loss) per share:				
Continuing operations	$0.09	$(0.02)	$0.14	$(0.08)
Discontinued operations	—	0.15	—	0.21
Net earnings	$0.09	$0.14	$0.14	$0.12

Some earnings per share amounts may not add due to rounding.

Due to the net loss from continuing operations incurred by the Company during the quarter and six months ended September 30, 2015, the dilutive effect of options, warrants and restricted stock units covering 1.4 million shares of common stock was excluded in each period from the diluted loss per share calculation since the impact on the calculation was anti-dilutive.

Additional options and warrants to purchase shares of common stock and restricted stock units, including performance-based restricted stock units not meeting performance criteria, that were outstanding during the periods presented but were not included in the computation of diluted earnings per share because the effect was anti-dilutive are shown below (in thousands, except share price amounts):

	For the quarter ended September 30,		For the six months ended September 30,	
	2016	2015	2016	2015
Number of shares outstanding under options, warrants and restricted stock units	39	1,946	263	1,915
Range of exercise prices for options	$20.27 - $32.85	$2.58 - $62.06	$20.27 - $32.85	$2.58 - $62.06

Stockholders' Equity

On August 29, 2011, the board of directors adopted a common stock repurchase program. That program was subsequently modified and expanded, most recently on July 28, 2016. Under the modified common stock

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repurchase program, the Company may purchase up to $400.0 million of its common stock through the period ending June 30, 2018. During the six months ended September 30, 2016, the Company repurchased 1.3 million shares of its common stock for $30.5 million. Through September 30, 2016, the Company had repurchased 16.8 million shares of its stock for $285.7 million, leaving remaining capacity of $114.3 million under the stock repurchase program.

Accumulated Other Comprehensive Income

The following table presents the accumulated balances for each component of other comprehensive income (dollars in thousands):

	September 30, 2016	March 31, 2016
Foreign currency translation	$ 7,634	$ 8,705
Unrealized loss on interest rate swap	(18)	(115)
	$ 7,616	$ 8,590

3.SHARE-BASED COMPENSATION:

Share-based Compensation Plans

The Company has stock option and equity compensation plans for which a total of 28.9 million shares of the Company's common stock have been reserved for issuance since the inception of the plans. These plans provide that the exercise prices of qualified options will be at or above the fair market value of the common stock at the time of the grant. Board policy requires that nonqualified options also be priced at or above the fair market value of the common stock at the time of grant. At September 30, 2016, there were a total of 2.2 million shares available for future grants under the plans.

Stock Option Activity

Stock option activity for the six-month period ended September 30, 2016 was:

	Number of shares	Weighted-average exercise price per share	Weighted- average remaining contractual term (in years)	Aggregate Intrinsic value (in thousands)
Outstanding at March 31, 2016	3,604,102	$ 14.52		
Exercised	(498,180)	$ 13.82		$ 4,848
Forfeited or cancelled	(47,833)	$ 16.24		
Outstanding at September 30, 2016	3,058,089	$ 14.60	5.4	$ 36,961
Exercisable at September 30, 2016	2,353,864	$ 14.49	4.6	$ 28,685

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between Acxiom's closing stock price on the last trading day of the quarter and the exercise price for each in-the-money option) that would have been realized by the option holders had option holders exercised their options on September 30, 2016. This amount changes based upon changes in the fair market value of Acxiom's common stock.

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A summary of stock options outstanding and exercisable as of September 30, 2016 is presented below:

	Options outstanding			Options exercisable	
Range of exercise price per share	Options outstanding	Weighted-average remaining contractual life	Weighted-average exercise price per share	Options exercisable	Weighted-average exercise price per share
$0.85 - $9.99	581,070	6.6 years	$ 1.86	403,973	$ 1.80
$10.00 - $19.99	1,611,798	5.3 years	$ 15.22	1,294,109	$ 14.59
$20.00 - $24.99	845,669	4.6 years	$ 21.77	646,008	$ 21.95
$25.00 - $32.85	19,552	7.1 years	$ 32.85	9,774	$ 32.85
	3,058,089	5.4 years	$ 14.60	2,353,864	$ 14.49

Total expense related to stock options for the six months ended September 30, 2016 and 2015 was approximately $3.5 million and $5.9 million, respectively. Future expense for these options is expected to be approximately $6.1 million over the next four years.

Performance Stock Option Unit Activity

On June 29, 2016, the Company granted 633,604 performance-based stock option units with a value at the date of grant of $4.9 million, determined using a Monte Carlo simulation model. All of the units granted in the current period vest and become exercisable in three equal tranches, each being subject to attainment of performance criteria and a subsequent service period established by the compensation committee of the board of directors ("Comp Committee"). Each of the three tranches may vest in a number of stock options, from zero to 300% of the initial award, each having an exercise price of $21.40, based on the attainment of certain revenue growth and operating margin targets for the years ending March 31, 2017, 2018, and 2019 respectively. Each tranche is subject to a service period following the respective performance periods, such that each tranche will cliff vest in two separate 50% increments over two years beginning with the Comp Committee meeting that immediately follows the end of the respective performance period.

Performance stock option unit activity for the six-month period ended September 30, 2016 was:

	Number of shares	Weighted-average exercise price per share	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at March 31, 2016	—	$ —		
Granted	633,604	$21.40		
Outstanding at September 30, 2016	633,604	$21.40	1.6	$3,326

Exercisable at September 30, 2016	—	$ —	—	$—

Total expense related to performance stock option units for the six months ended September 30, 2016 was $0.3 million. Future expense for these performance stock option units is expected to be approximately $4.6 million over the next five years.

Stock Appreciation Right (SAR) Activity

SAR activity for the six-month period ended September 30, 2016 was:

	Number of shares	Weighted-average exercise price per share	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at March 31, 2016	245,404	$40.00		
Outstanding at September 30, 2016	245,404	$40.00	0.5	$—
Exercisable at September 30, 2016	—	$—	—	$—

Total expense related to SARs for the six months ended September 30, 2016 and 2015 was $0.1 million in both periods. Future expense for these SARs is expected to be approximately $0.1 million over the next year.

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Restricted Stock Unit Activity

During the six months ended September 30, 2016, the Company granted time-vesting restricted stock units covering 1,257,215 shares of common stock with a value at the date of grant of $27.3 million. Of the restricted stock units granted in the current period, 1,045,041 vest in equal annual increments over four years, 24,160 vest in one year, and 188,014 vest 25% at the one-year anniversary and then over equal quarterly increments during the three subsequent years. Valuation of these units is equal to the quoted market price for the shares on the date of grant.

Non-vested time-vesting restricted stock unit activity for the six-month period ended September 30, 2016 was:

	Number of shares	Weighted average fair value per share at grant date	Weighted-average remaining contractual term (in years)
Outstanding at March 31, 2016	2,279,895	$ 19.69	2.12
Granted	1,257,215	$ 21.74	
Vested	(772,762)	$ 20.28	
Forfeited or cancelled	(95,560)	$ 19.38	
Outstanding at September 30, 2016	2,668,788	$ 20.50	2.64

During the six months ended September 30, 2016, the Company granted performance-based restricted stock units covering 254,419 shares of common stock with a value at the date of grant of $6.3 million, determined using a Monte Carlo simulation model. All of the performance-based restricted stock units granted in the current period vest subject to attainment of performance criteria established by the Comp Committee. The units granted in the current period may vest in a number of shares from zero to 200% of the award, based on the total shareholder return of Acxiom common stock compared to total shareholder return of a group of peer companies established by the Comp Committee of the board of directors for the period from April 1, 2016 to March 31, 2019.

Non-vested performance-based restricted stock unit activity for the six-month period ended September 30, 2016 was:

	Number of shares	Weighted average fair value per share at grant date	Weighted-average remaining contractual term (in years)
Outstanding at March 31, 2016	516,818	$ 18.62	1.67
Granted	254,419	$ 24.66	
Forfeited or cancelled	(26,142)	$ 17.57	
Outstanding at September 30, 2016	745,095	$ 20.72	1.63

Total expense related to all restricted stock units in the six months ended September 30, 2016 and 2015 was approximately $15.4 million and $8.5 million, respectively. Future expense for these restricted stock units is expected to be approximately $59.1 million over the next four years.

Other Performance Unit Activity

Other performance-based unit activity for the six-month period ended September 30, 2016 was:

	Number of shares	Weighted average fair value per share at grant date	Weighted-average remaining contractual term (in years)
Outstanding at March 31, 2016	635,655	$ 4.07	1.30
Outstanding at September 30, 2016	635,655	$ 4.07	0.80

Total expense related to other performance units for the six months ended September 30, 2016 and 2015 was $0.5 million and $0.4 million, respectively. Future expense for these performance units is expected to be approximately $0.8 million over the next two years.

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4.DISCONTINUED OPERATIONS AND DISPOSITIONS:

Disposition of Impact email business

In August 2016, the Company completed the sale of its Impact email business to Zeta Interactive for total consideration of $22.0 million, including a $4.0 million subordinated promissory note with interest accruing at a rate of 6.0% per annum. The note is payable on the 12 month anniversary of the closing date, and is included in other current assets in the condensed consolidated balance sheet. The Company also entered into a separate multi-year contract to provide Zeta Interactive with Connectivity and Audience Solutions services. Prior to the disposition, the Impact email business was included in the marketing Services segment results.

The business did not meet the requirements of a discontinued business; therefore, all financial results are included in continuing operations. The Company recorded a gain on sale of $0.6 million, included in gains, losses and other items, net. The transaction also generated a $4.1 million income tax benefit.

Revenue and income from operations from the disposed Impact email business are shown below (dollars in thousands):

	For the quarter ended September 30,		For the six months ended September 30,	
	2016	2015	2016	2015
Revenues	$8,056	$15,812	$20,375	$31,523
Income from continuing operations before income taxes	$249	$2,962	$120	$6,275

IT Infrastructure Management business (“ITO”)

During fiscal 2016, the Company completed the sale of its ITO business to Charlesbank Capital Partners and M/C Partners. The business qualified for treatment as discontinued operations during fiscal 2016. Accordingly, the results of operations, cash flows, and the balance sheet amounts pertaining to ITO, for all periods reported, have been classified as discontinued operations in the condensed consolidated financial statements.

Summary results of operations of ITO for the six months ended September 30, 2015, are segregated and included in earnings from discontinued operations, net of tax, in the condensed consolidated statements of operations.

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The following table is a reconciliation of the major classes of line items constituting earnings from discontinued operations, net of tax (dollars in thousands):

	For the quarter ended September 30, 2015	For the six months ended September 30, 2015
Major classes of line items constituting earnings from discontinued operations, net of tax:		
Revenues	$ 16,830	$ 69,410
Cost of revenue	10,269	50,837
Gross profit	6,561	18,573
Operating expenses:		
Sales and marketing	194	1,192
General and administrative	2,285	6,053
Gain on sale of discontinued operations	(10,360)	(10,360)
Total operating expenses	(7,881)	(3,115)
Income from discontinued operations	14,442	21,688
Interest expense	(117)	(681)
Other, net	(227)	(230)
Earnings from discontinued operations before income taxes	14,098	20,777
Income taxes	2,030	4,566
Earnings from discontinued operations, net of tax	$ 12,068	$ 16,211

ITO was a provider of managed hosting and cloud infrastructure services, optimized for mid-tier enterprises. The Company entered into certain agreements with ITO in which support services, including data center co-location services, are provided from the Company to ITO, and from ITO to the Company. Additionally, the Company entered into certain other agreements with ITO to provide or receive leased office space. The terms of these agreements range from several months to the longest of which continues through July 2020. The agreements generally provide cancellation provisions, without penalty, at various times throughout the term.

Cash inflows and outflows related to the agreements are included in cash flows from operating activities in the condensed consolidated statements of cash flows. Revenues and expenses related to the agreements are included in income (loss) from operations in the condensed consolidated statements of operations. The related cash inflows and outflows and revenues and expenses for all periods reported are shown below (dollars in thousands):

	For the quarter ended September 30,		For the six months ended September 30,	
	2016	2015	2016	2015
Cash inflows	$1,870	$699	$3,711	$699

Cash outflows	$930	$149	$2,445	$149
Revenues	$1,836	$1,166	$3,566	$1,166
Expenses	$912	$1,156	$2,312	$1,156

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5.OTHER CURRENT AND NONCURRENT ASSETS:

Other current assets consist of the following (dollars in thousands):

	September 30, 2016	March 31, 2016
Prepaid expenses	$ 26,590	$ 25,365
Note receivable	4,000	—
Assets of non-qualified retirement plan	12,326	12,532
Other current assets	$ 42,916	$ 37,897

Other noncurrent assets consist of the following (dollars in thousands):

	September 30, 2016	March 31, 2016
Acquired intangible assets, net	$ 16,685	$ 19,203
Deferred data acquisition costs	1,141	1,644
Deferred expenses	745	883
Prepaid expenses	1,400	1,404
Other miscellaneous noncurrent assets	2,036	2,181
Noncurrent assets	$ 22,007	$ 25,315

6.GOODWILL:

The following table summarizes Goodwill activity, by segment, for the six months ended September 30, 2016 (dollars in thousands).

	Marketing Services	Audience Solutions	Connectivity	Total
Balance at March 31, 2016	$124,586	$273,430	$ 94,729	$492,745
Allant adjustment	—	19	—	19
Impact email disposition	(5,684)	—	—	(5,684)
Change in foreign currency translation adjustment	(17)	—	(8)	(25)
Balance at September 30, 2016	$118,885	$273,449	$ 94,721	$487,055

Goodwill by component included in each segment as of September 30, 2016 was:

	Marketing Services	Audience Solutions	Connectivity	Total
U.S.	$110,910	$273,449	$ 91,164	$475,523
APAC	7,975	—	3,557	11,532
Balance at September 30, 2016	$118,885	$273,449	$ 94,721	$487,055

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7.LONG-TERM DEBT:

Long-term debt consists of the following (dollars in thousands):

	September 30, 2016	March 31, 2016
Term loan credit agreement	$ 170,000	$ 185,000
Other debt and long-term liabilities	6,744	7,856
Total long-term debt and capital leases	176,744	192,856
Less current installments	32,281	32,243
Less deferred debt financing costs	2,122	2,716
Long-term debt, excluding current installments and deferred debt financing costs	$ 142,341	$ 157,897

The Company's amended and restated credit agreement provides for (1) term loans up to an aggregate principal amount of $300 million and (2) revolving credit facility borrowings consisting of revolving loans, letter of credit participations and swing-line loans up to an aggregate amount of $300 million.

The term loan is payable in quarterly installments of $7.5 million through September 2017, followed by quarterly installments of $11.3 million through June 2018, with a final payment of $106.3 million due October 9, 2018. The revolving loan commitment expires October 9, 2018.

Term loan and revolving credit facility borrowings bear interest at LIBOR or at an alternative base rate plus a credit spread. At September 30, 2016, the LIBOR credit spread was 1.75%. There were no revolving credit borrowings outstanding at September 30, 2016 or March 31, 2016. The weighted-average interest rate on term loan borrowings at September 30, 2016 was 2.4%. Outstanding letters of credit at September 30, 2016 were $0.8 million.

The term loan allows for prepayments before maturity. The credit agreement is secured by the accounts receivable of Acxiom and its domestic subsidiaries, as well as by the outstanding stock of certain Acxiom subsidiaries.

Under the terms of the term loan, the Company is required to maintain certain debt-to-cash flow and debt service coverage ratios, among other restrictions. At September 30, 2016, the Company was in compliance with these covenants and restrictions. In addition, if certain financial ratios and other conditions are not satisfied, the revolving credit facility limits the Company's ability to pay dividends in excess of $30 million in any fiscal year (plus additional amounts in certain circumstances).

On March 10, 2014, the Company entered into an interest rate swap agreement. The agreement provides for the Company to pay interest through March 10, 2017 at a fixed rate of 0.98% plus the applicable credit spread on $50.0 million notional amount, while receiving interest for the same period at the LIBOR rate on the same notional amount. The LIBOR rate as of September 30, 2016 was 0.85%. The swap was entered into as a cash flow hedge against LIBOR interest rate movements on the term loan. The Company assesses the effectiveness of the hedge based on the hypothetical derivative method. There was no ineffectiveness for the period ended September 30, 2016. Under the hypothetical derivative method, the cumulative change in fair value of the actual swap is compared to the cumulative change in fair value of the hypothetical swap, which has terms that identically match the critical terms of the hedged transaction. Thus, the hypothetical swap is presumed to perfectly offset the hedged cash flows. The change in the fair value of the hypothetical swap will then be regarded as a proxy for the present value of the cumulative change in the expected future cash flows from the hedged transactions. All of the fair values are derived from an interest-rate futures model. As of September 30, 2016, the hedge relationship still qualified as an effective hedge under applicable accounting standards. Consequently, all changes in fair value of the derivative will be deferred and recorded in other comprehensive income (loss) until the related forecasted transaction is recognized in the condensed consolidated statement of operations. The fair market value of the derivative was zero at inception and an immaterial unrealized loss since inception is recorded in other comprehensive income (loss). The fair value of the interest rate swap agreement recorded in accumulated other comprehensive income may be

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recognized in the condensed consolidated statement of operations if certain terms of the floating-rate debt change, if the floating-rate debt is extinguished or if the interest rate swap agreement is terminated prior to maturity. The Company has assessed the creditworthiness of the counterparty of the swap and concludes that no substantial risk of default exists as of September 30, 2016.

8.ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Trade accounts receivable are presented net of allowances for doubtful accounts, returns and credits of $5.9 million at September 30, 2016 and $7.3 million at March 31, 2016.

9.SEGMENT INFORMATION:

The Company reports segment information consistent with the way management internally disaggregates its operations to assess performance and to allocate resources.

Revenues and cost of revenue are generally directly attributed to the segments. Certain revenue contracts are allocated among the segments based on the relative value of the underlying products and services. Cost of revenue, excluding non-cash stock compensation expense and purchased intangible asset amortization, is directly charged in most cases and allocated in certain cases based upon proportional usage.

Operating expenses, excluding non-cash stock compensation expense and purchased intangible asset amortization, are attributed to the segment groups as follows:

- Research and development expenses are primarily directly recorded to each segment group based on identified products supported.
- Sales and marketing expenses are primarily directly recorded to each segment group based on products supported and sold.
- General and administrative expenses are generally not allocated to the segments.
- Gains, losses and other items, net are not allocated to the segment groups.

We do not track our assets by operating segments. Consequently, it is not practical to show assets by operating segment.

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The following table presents information by business segment (dollars in thousands):

	For the quarter ended September 30,		For the six months ended September 30,	
	2016	2015	2016	2015
Revenues:				
Marketing Services	$105,679	$112,979	$215,394	$220,705
Audience Solutions	78,526	72,122	152,270	140,672
Connectivity	33,062	22,244	64,404	42,863
Total segment revenues	$217,267	$207,345	$432,068	$404,240
Gross profit(1):				
Marketing Services	$34,480	$37,545	$71,946	$73,579
Audience Solutions	47,998	39,170	89,910	75,994
Connectivity	19,843	13,499	37,418	25,452
Total segment gross profit	$102,321	$90,214	$199,274	$175,025
Income (loss) from operations(1):				
Marketing Services	$19,837	$17,908	$39,982	$34,761
Audience Solutions	29,972	25,190	55,068	49,277
Connectivity	1,663	(1,068)	1,954	(1,859)
Total segment income from operations	$51,472	$42,030	$97,004	$82,179

(1) Gross profit and Income (loss) from operations reflect only the direct and allocable controllable costs of each segment and do not include allocations of corporate expenses (primarily general and administrative expenses) and gains, losses, and other items, net. Additionally, Gross profit and Income (loss) from operations do not reflect non-cash stock compensation expense and purchased intangible asset amortization.

The following table reconciles total operating segment gross profit to gross profit and total operating segment income from operations to income (loss) from operations:

	For the quarter ended September 30,		For the six months ended September 30,	
	2016	2015	2016	2015
Total segment gross profit	$102,321	$90,214	$199,274	$175,025
Less:				
Purchased intangible asset amortization	3,890	3,754	7,967	7,508
Non-cash stock compensation	1,269	349	2,163	778

Accelerated amortization	—	78	—	1,520
Gross profit	$97,162	$86,033	$189,144	$165,219
Total segment income from operations	$51,472	$42,030	$97,004	$82,179
Less:				
Corporate expenses (principally general and administrative)	26,769	23,563	51,158	49,041
Separation and transformation costs included in general and administrative	1,455	6,098	1,455	9,512
Gains, losses and other items, net	300	2,504	614	3,311
Impairment of goodwill and other	—	729	—	729
Purchased intangible asset amortization	3,890	3,754	7,967	7,508
Non-cash stock compensation	11,938	7,360	20,528	15,483
Accelerated amortization	—	78	—	1,520
Income (loss) from operations	$7,120	$(2,056)	$15,282	$(4,925)

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10.RESTRUCTURING, IMPAIRMENT AND OTHER CHARGES:

The following table summarizes the restructuring activity for the six months ended September 30, 2016 (dollars in thousands):

	Associate-related reserves	Ongoing contract costs	Total
March 31, 2016	$ 2,855	$ 3,524	$6,379
Restructuring charges and adjustments	1,208	—	1,208
Payments	(3,268)	(1,011)	(4,279)
September 30, 2016	$ 795	$ 2,513	$3,308

The above balances are included in accrued expenses and other liabilities on the condensed consolidated balance sheet.

Restructuring Plans

In the six months ended September 30, 2016, the Company recorded a total of $1.2 million in restructuring charges and adjustments included in gains, losses and other items, net in the condensed consolidated statement of operations. The expense included severance and other associate-related charges, of which $0.7 million represented adjustments to the fiscal 2016 restructuring plans. The remaining 0.5 million related to termination of associates in the United States and was fully settled during the current fiscal quarter.

In fiscal 2016, the Company recorded a total of $12.0 million in restructuring charges and adjustments included in gains, losses and other items, net in the condensed consolidated statement of operations. The expense included severance and other associate-related charges of $8.6 million, lease termination charges and accruals of $3.0 million, and leasehold improvement write-offs of $0.4 million.

The associate-related accruals of $8.6 million relate to the termination of associates in the United States, Europe, Brazil and Australia. Of the amount accrued for 2016, $0.5 million remained accrued as of September 30, 2016. These costs are expected to be paid out in fiscal 2017.

The lease termination charges and accruals of $3.0 million included a $1.4 million lease early-termination fee in France, a lease accrual of $0.2 million, and a $1.4 million increase to the fiscal 2015 lease restructuring plans. The fiscal 2016 lease early-termination fee and lease accrual were fully paid during fiscal 2016.

In fiscal 2015, the Company recorded a total of $21.8 million in restructuring charges and adjustments included in gains, losses and other items, net in the condensed consolidated statement of operations. The expense included severance and other associate-related charges of $13.3 million, lease accruals of $6.5 million, and the write-off of leasehold improvements of $2.0 million.

The associate-related accruals of $13.3 million related to the termination of associates in the United States, Europe, Australia, and China and included an increase of $0.7 million to the fiscal 2014 restructuring plan. Of the amount accrued for 2015, $0.3 million remained accrued as of September 30, 2016. These costs are expected to be paid out in fiscal 2017.

The lease accruals of $6.5 million were determined in accordance with the accounting standards that govern exit costs. These accounting standards require the Company to accrue for lease costs that will continue to be incurred without economic benefit to the Company upon the date that the Company ceases using the leased properties. The Company has ceased using certain leased office facilities. The Company intends to attempt to sublease the facilities to the extent possible. The Company established a liability for the fair value of the remaining lease payments, partially offset by the estimated sublease payments to be received over the course of the leases. The fair value of these liabilities is based on a net present value model using a credit-adjusted risk-free rate. The liability will be paid out over the remainder of the leased properties' terms, which

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continue through November 2025. Actual sublease terms may differ from the estimates originally made by the Company. Any future changes in the estimates or in the actual sublease income could require future adjustments to the liabilities, which would impact net earnings (loss) in the period the adjustment is recorded. Of the amount accrued for 2015, $2.5 million remained accrued as of September 30, 2016.

Gains, Losses and Other Items

Gains, losses and other items for each of the periods presented are as follows (dollars in thousands):

	For the quarter ended September 30,		For the six months ended September 30,	
	2016	2015	2016	2015
Restructuring plan charges and adjustments	$929	$2,499	$1,208	$3,302
Gain on disposition of Impact email business	(629)	—	(629)	—
Other	—	5	35	9
	$300	$		