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

FORM 10-Q

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

For the quarterly period ended December 31, 2001

Commission File Number 0-25346

TRANSACTION SYSTEMS ARCHITECTS, INC.
(Exact name of registrant as specified in its charter)

Delaware	47-0772104
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
224 South 108th Avenue Omaha, Nebraska 68154	(402) 334-5101
(Address of principal executive offices, including zip code)	(Registrant's telephone number, including area code)

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

Yes _x_ No ___

The number of shares of the issuer's Class A Common Stock, par value $.005 per share, outstanding as of February 8, 2002 was 35,308,548 (excluding 1,476,145 shares held as Treasury Stock, and including 574,051 Exchangeable Shares of TSA Exchangeco Limited which can be exchanged on a one-for-one basis for shares of the issuer's Class A Common Stock and 18,014 options to purchase shares of the issuer's Class A Common Stock at an exercise price of one cent per share issued to MessagingDirect Ltd. shareholders).

TABLE OF CONTENTS

==

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Index to condensed consolidated financial statements filed as part of this Form 10-Q:

TRANSACTION SYSTEMS ARCHITECTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited and in thousands, except share amounts)

	December 31, 2001	September 30, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,753	$ 32,252
Marketable securities	2,100	2,650
Billed receivables, net of allowances of $9,100 and $8,700, respectively	50,973	50,277
Accrued receivables	44,970	50,932
Prepaid income taxes	2,185	1,911
Deferred income taxes	9,399	8,700
Other	9,456	10,990
Total current assets	155,836	157,712
Property and equipment, net	15,089	14,580
Software, net	24,527	27,954
Goodwill, net	49,944	82,327
Long-term accrued receivables	19,895	24,916
Investments and notes receivable	1,259	1,309
Deferred income taxes	20,632	13,627
Other	4,549	5,028
Total assets	$ 291,731	$ 327,453
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 5,655	$ 12,559
Accounts payable	9,919	13,542
Accrued employee compensation	7,792	9,030
Accrued liabilities	23,795	23,369
Deferred revenue	40,154	35,857
Total current liabilities	87,315	94,357
Long-term debt	1,409	761
Long-term deferred revenue	9,666	12,610
Other	1,016	1,057
Total liabilities	99,406	108,785
Stockholders' equity:		
Class A Common Stock, 36,748,667 and 36,687,658 shares issued and outstanding, respectively	184	184
Additional paid-in capital	222,832	222,501
Retained earnings	13,512	42,016
Treasury stock, 1,476,145 shares	(35,258)	(35,258)
Accumulated other comprehensive income	(8,945)	(10,775)
Total stockholders' equity	192,325	218,668
Total liabilities and stockholders' equity	$ 291,731	$ 327,453

See notes to condensed consolidated financial statements.

TRANSACTION SYSTEMS ARCHITECTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

	Three Months Ended December 31, 2001	Three Months Ended December 31, 2000
Revenues:		
Software license fees	$ 34,321	$ 42,467
Maintenance fees	19,478	15,965
Services	11,511	16,204
Total revenues	65,310	74,636
Expenses:		
Cost of software license fees	10,995	11,591
Cost of maintenance and services	15,768	18,711
Research and development	9,049	10,069
Selling and marketing	16,622	19,695
General and administrative	13,637	16,127
Amortization of goodwill	-	2,367
Total expenses	66,071	78,560
Operating loss	(761)	(3,924)
Other income (expense):		
Interest income, net	920	205
Other	(4,006)	(14,038)
Total other income (expense)	(3,086)	(13,833)
Loss before income taxes	(3,847)	(17,757)
Income tax benefit	1,047	3,405
Loss from continuing operations before cumulative effect of accounting change	(2,800)	(14,352)
Cumulative effect of accounting change	(25,704)	-
Net loss	$ (28,504)	$ (14,352)
Earnings per share information:		
Weighted average shares outstanding	35,255	31,654
Basic and diluted earnings per share:		
Continuing operations	$ (0.08)	$ (0.45)
Cumulative effect of accounting change	(0.73)	-
Net loss	$ (0.81)	$ (0.45)

See notes to condensed consolidated financial statements.

TRANSACTION SYSTEMS ARCHITECTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	Three Months Ended December 31, 2001	Three Months Ended December 31, 2000
Cash flows from operating activities:		
Net loss	$ (28,504)	$ (14,352)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	1,775	2,088
Amortization	4,799	5,430
Non-cash and other charges	2,900	14,311
Goodwill impairment	31,885	-
Changes in operating assets and liabilities:		
Billed and accrued receivables, net	10,287	(12,316)
Other current and noncurrent assets	(6,379)	(3,250)
Accounts payable	(3,623)	(4,717)
Deferred revenue	1,353	1,790
Other current and noncurrent liabilities	(343)	2,041
Net cash provided by (used in) operating activities	14,150	(8,975)
Cash flows from investing activities:		
Purchases of property and equipment	(2,333)	(853)
Additions to software	(911)	(2,372)
Additions to investments and notes receivable	(100)	(1,820)
Net cash used in investing activities	(3,344)	(5,045)
Cash flows from financing activities:		
Proceeds from issuance of Class A Common Stock	301	435
Proceeds from exercise of stock options	20	94
Line of credit borrowings (payments)	(7,000)	10,755
Borrowings (payments) of long-term debt	744	(171)
Net cash provided by (used in) financing activities	(5,935)	11,113
Effect of exchange rate fluctuations on cash	(370)	88
Net increase (decrease) in cash and cash equivalents	4,501	(2,819)
Cash and cash equivalents, beginning of period	32,252	23,400
Cash and cash equivalents, end of period	$ 36,753	$ 20,581

See notes to condensed consolidated financial statements.

TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Consolidated Financial Statements

Transaction Systems Architects, Inc. (the "Company" or "TSA"), a Delaware corporation, develops, markets, installs and supports a broad line of software products and services primarily focused on facilitating electronic payments and electronic commerce. In addition to its own products, the Company distributes, or acts as a sales agent for, software developed by third parties. The products are used principally by financial institutions, retailers and e-payment processors, both in domestic and international markets.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The condensed consolidated financial statements at December 31, 2001, and for the three months ended December 31, 2001 and 2000, are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001. The results of operations for the three months ended December 31, 2001 are not necessarily indicative of the results that may be achieved for the entire fiscal year ending September 30, 2002.

2. Revenue Recognition

The Company generates revenues from licensing software and providing postcontract customer support (maintenance or "PCS") and other professional services. The Company uses written contracts to document the elements and obligations of arrangements with its customers. Arrangements that include the licensing of software typically include PCS and, at times, include other professional services. PCS includes the right to unspecified upgrades on a when-and-if-available basis and ongoing technical support. The other professional services may include training, installation or consulting. The Company also performs professional services for customers under arrangements that do not include the licensing of software.

Revenues under multiple-element arrangements, which may include several software products or professional services sold together, are allocated to each element based upon the residual method in accordance with American Institute of Certified Public Accountants Statement of Position ("SOP") 98-9, "Software Revenue Recognition, With Respect to Certain Arrangements." Under the residual method, the fair value of the undelivered elements is deferred and subsequently recognized. The Company has established sufficient vendor specific objective evidence of fair value for PCS and other professional services based upon the price charged when these elements are sold separately. Accordingly, software license fee revenues are recognized under the residual method in arrangements in which the software is licensed with PCS and/or other professional services, and the undelivered elements of the arrangement are not essential to the functionality of the delivered software.

The Company recognizes software license fees upon execution of the signed contract, delivery of the software to the customer, determination that the software license fees are fixed or determinable, and determination that the collection of the software license fees is probable. The software license is typically for a term of up to 60 months and does not include a right of return. The term for the PCS element of a software arrangement is typically for a period shorter than the term of the software license, and can be renewed by the customer over the remaining term of the software license. PCS or maintenance revenues are recognized ratably over the term of the arrangement on a straight-line basis. The other professional services element of a software arrangement is typically accounted for separately as the services are performed for time-and-materials contracts or on a percentage-of-completion basis for fixed-price contracts. In those instances where the services are essential to the functionality of any other element of the arrangement, contract accounting is applied to both the software and services elements of the arrangement.

The Company follows two methods for pricing its software licenses. Under the first method, the software license is priced based upon the number of transactions processed by the customer ("transaction-based pricing"). Under transaction-based pricing, the customer is allowed to process a contractually predetermined maximum volume of transactions per month for a specified period of time. Once the customer's transaction volume exceeds this maximum volume level, the customer is required to pay additional license fees for each incremental volume level. Under the second method, the software license is priced on a per copy basis and tiered to recognize different performance levels of the customer's processing hardware ("designated-equipment-group pricing"). Under designated-equipment-group pricing, the customer pays a license fee for each copy of the software for a specified period of time.

Licensees are typically given two payment options. Under the first payment option, the licensee can pay a combination of an Initial License Fee ("ILF"), where the licensee pays a portion of the total software license fees at the beginning of the software license term, and a Monthly License Fee ("MLF"), where the licensee pays the remaining portion of the software license fees over the software license term. In certain arrangements, the customer is contractually committed to making MLF payments for a minimum number of months. If the customer decides to terminate the arrangement prior to paying the minimum MLF payments, the remaining minimum MLF payments become due and payable. Under the second payment option, the Company offers a Paid-Up-Front ("PUF") payment option, whereby the total software license fees are due at the beginning of the software license term. Under either payment option, the Company is not obligated to refund any payments received from the customer. In the combination ILF and MLF payment option, the Company recognizes the ILF portion of the software license fees upon delivery of the software, assuming all other revenue recognition criteria were met. In the PUF payment option, the Company recognizes the total software license fees upon delivery of the software, assuming all other revenue recognition criteria were met.

In addition to SOP 98-9, the Company accounts for its software arrangements in accordance with SOP 97-2, "Software Revenue Recognition." The primary software revenue recognition criteria outlined in SOP 97-2 include: evidence of an arrangement; delivery; fixed or determinable fees; and collectibility. SOP 97-2 specifies that extended payment terms in a software licensing arrangement may indicate that the software license fees are not deemed to be fixed or determinable. In addition, if payment of a significant portion of the software license fees is not due until more than twelve months after delivery, the software license fees should be presumed not to be fixed or determinable, and thus should be recognized as the payments become due. However, SOP 97-2 specifies that if a company has a standard business practice of using extended payment terms in software licensing arrangements and has a history of successfully collecting the software license fees under the original terms of the software licensing arrangement without making concessions, the company can overcome the presumption that the software license fees are not fixed or determinable. If the presumption is overcome, the company should recognize the software license fees when all other SOP 97-2 revenue recognition criteria are met.

The Company has concluded that for certain BASE24 and ICE software arrangements where the customer is contractually committed to make MLF payments that extend beyond twelve months, the "fixed or determinable" presumption has been overcome and software license fee revenues should be recognized upon meeting the other SOP 97-2 revenue recognition criteria. In making this determination, the Company considered the characteristics of the software product, the customer purchasing the software, the similarity of the economics of the software arrangements with previous software arrangements and the actual history of successfully collecting under the original terms without providing concessions. The software license fees recognized under these arrangements are referred to as "Recognized-Up-Front MLFs." For all other products, it has been concluded that (1) the Company does not have a standard business practice of using extended payment terms, and/or (2) the Company does not have a long-range history of successful collections for those products.

The present value of Recognized-Up-Front MLFs, net of third-party royalties, recognized during the three months ended December 31, 2001 and 2000 totaled approximately $4.0 million and $9.1 million, respectively. The discount rates used to determine the present value of these software license fees, representing the Company's incremental borrowing rates, ranged from 9.00% to 9.25% during the three months ended December 31, 2001, and from 9.50% to 11.00% during the three months ended December 31, 2000. Recognized-Up-Front MLFs that have been recognized as software license fee revenues by the Company, but not yet billed, are reflected in accrued receivables in the accompanying condensed consolidated balance sheets.

3. Line of Credit Facilities

The Company has a $25.0 million bank line of credit agreement with a large United States bank secured by certain trade receivables. This credit agreement provides that the Company must satisfy certain specified earnings, working capital and minimum tangible net worth requirements, as defined, and places restrictions on the Company's ability to, among other things, sell assets, incur debt, pay dividends, participate in mergers and make investments or guarantees. The Company also has a line of credit agreement with a large foreign bank in the amount of 3.0 million British Sterling, which translates to approximately $4.4 million as of December 31, 2001. The foreign credit agreement requires the Company to maintain minimum tangible net worth within the Company's wholly-owned subsidiary, ACI Worldwide (EMEA) Ltd. The U.S. credit facility expires in June 2002 and the foreign credit facility expires in October 2002.

Interest on the U.S. credit facility accrues at an annual rate equal to either the bank's prime rate less .25% or the LIBOR rate plus 1.75% and is payable monthly. Interest on the foreign credit facility accrues at an annual rate of 1% above the bank's "base rate." During the three months ended December 31, 2001 and 2000, the Company recorded interest expense of $128,000 and $481,000, respectively, related to its line of credit facilities. The carrying amounts of the Company's credit facilities approximate fair value due to their variable interest rates. Current U.S. line of credit borrowings outstanding totaled $5.0 million as of December 31, 2001, with an interest rate on these borrowings of 4.50%. The remaining $24.4 million is available to the Company for future borrowings. The Company is in compliance with all debt covenants as of December 31, 2001.

4. Non-Cash and Other Charges

The Company continually evaluates its investment holdings and long-lived assets for evidence of impairment. During the three months ended December 31, 2001 and 2000, after considering current market conditions for technology companies and specific information regarding those companies in which the Company has an ownership interest, the Company determined that the declines in market value for certain of its investment holdings were "other than temporary" and charges to earnings for the declines in market value were required. Therefore, the Company recorded non-cash charges of $2.9 million and $12.4 million, respectively, during the three months ended December 31, 2001 and 2000. In addition, the Company expensed costs of $1.9 million associated with the cancelled initial public offering of its wholly-owned subsidiary, Insession Technologies, Inc. in the three months ended December 31, 2000.

During the third quarter of fiscal 2001, the Company closed or significantly reduced the size of certain product development organizations and geographic sales offices. The Company also made executive management changes and transferred its 70% ownership in Hospital Health Plan Corporation to the minority shareholder. These actions resulted in a charge of $22.0 million during the third quarter of fiscal 2001.

Charges associated with these actions related to asset impairments, lease obligations, termination benefits and other restructuring charges. Asset impairments related to the write-off of property and equipment in vacated office facilities and other-than-temporary declines in the fair value of certain notes receivables. Lease obligations related to vacated corporate office facilities. Amounts expensed represent estimates of undiscounted future cash outflows, offset by anticipated third-party purchases or sub-leases. Termination benefits were comprised of severance-related payments for all employees terminated in connection with the operational restructuring and the partial forgiveness of a note receivable from an executive officer. Termination benefits do not include any amounts for employment-related services prior to termination. Other restructuring charges included settlement costs and allowance provisions for customers under related contractual obligations.

At September 30, 2001, the remaining accrued liability associated with the restructuring and other charges described above was $4.0 million and consisted of $1.4 million in lease obligations, $1.5 million in termination benefits and $1.1 million in other restructuring charges. During the first quarter of fiscal 2002, the Company reduced the liability related to these items by approximately $100,000. The Company expects approximately $3.1 million of the remaining $3.9 million liability to be paid during the remainder of fiscal 2002. The remaining portion, consisting primarily of lease obligations, will be paid during fiscal 2003.

5. Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board (the "FASB") released Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," which established new accounting and reporting requirements for goodwill and other intangible assets (with indefinite lives) acquired in business combinations. Upon adoption of SFAS No. 142, goodwill and other intangible assets with indefinite lives will continue to be recognized as assets, but will not be amortized as previously required by Accounting Principles Board Opinion No. 17, "Intangible Assets."

SFAS No. 142 requires that goodwill be tested for impairment at the reporting unit level at the time of adoption and at least annually thereafter, utilizing a two-step methodology. The initial step requires the Company to determine the fair value of each reporting unit and compare it to the carrying value, including goodwill, of such unit. If the fair value exceeds the carrying value, no impairment loss would be recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of this unit may be impaired. The amount of impairment, if any, would then be measured in the second step.

Effective October 1, 2001, the Company adopted SFAS No. 142 and hired an independent consultant to perform valuations of the Company's reporting units that contain goodwill. Completion of the initial step of testing indicated that the carrying value of one reporting unit exceeded its estimated fair value. Fair value was determined using a discounted cash flow methodology. Thereafter, given the indication of a potential impairment, the independent consultant completed step two of the test. Based on that analysis, an impairment loss of $25.7 million (net of income tax benefit of $6.2 million), or $0.73 per basic and diluted share, was recognized as a cumulative effect of accounting change. The impairment within this reporting unit resulted primarily from overall softness in discretionary information technology spending and slower than expected adoption of secure document delivery technology.

Changes in the carrying amount of goodwill attributable to each reportable operating segment with goodwill balances for the three months ended December 31, 2001 are as follows (in thousands):

	ACI Worldwide	Insession Technologies	MessagingDirect Ltd.
Balance, September 30, 2001	$ 14,609	$ 35,353	$ 32,365
Foreign currency translation adjustment	(18)	-	(480)
Impairment adjustment	-	-	(31,885)
Balance, December 31, 2001	$ 15,964	$ 33,980	$ -

In connection with adopting SFAS No. 142, the Company reassessed the useful lives of intangible assets subject to amortization, consisting only of internally-developed software and purchased software, and determined that they continue to be appropriate. Amortization of software is computed using the straight-line method over an estimated useful life of three years. The gross carrying amount and accumulated amortization of software at each balance sheet date are as follows (in thousands):

	Dec. 31, 2001	Sept. 30, 2001
Internally-developed software	$ 25,304	$ 25,008
Purchased software	54,012	53,720
	79,316	78,728
Less: accumulated amortization	(54,789)	(50,774)
Software, net	$ 24,527	$ 27,954

Software amortization expense recorded in the first quarter of fiscal 2002 was $4,224,000. Estimated amortization expense for fiscal 2002 and each of the five succeeding fiscal years is as follows (in thousands):

2002	$13,116
2003	9,656
2004	4,425
2005	1,413
2006	0
2007	0

Actual results of operations for the three months ended December 31, 2001, and results of operations for the three months ended December 31, 2000, shown as if the Company had applied the nonamortization provisions of SFAS No. 142 during that period, are as follows (in thousands, except per share amounts):

	Three Months Ended December 31, 2001	2000
Net loss, as reported	$ (28,504)	$ (14,352)
Add back: cumulative effect of accounting change	25,704	-
Net loss from continuing operations	(2,800)	(14,352)
Add back: goodwill amortization	-	2,367
Adjusted net loss	$ (2,800)	$ (11,985)
Basic and diluted earnings per share:		
Net loss, as reported	$ (0.81)	$ (0.45)
Cumulative effect of accounting change	0.73	-
Net loss from continuing operations	(0.08)	(0.45)
Goodwill amortization	-	0.07
Adjusted net loss	$ (0.08)	$ (0.38)

6. Common Stock and Earnings Per Share

Exchangeable shares and options received by shareholders of MessagingDirect Ltd. ("MDL") that have not yet been converted into TSA Class A Common Stock are included in Class A Common Stock for presentation purposes on the September 30, 2001 and December 31, 2001 condensed consolidated balance sheets, and are included in common shares outstanding for earnings per share ("EPS") computations for the three months ended December 31, 2001. Exchangeable shares and MDL options included in Class A Common Stock totaled 636,243 shares and 18,992 options as of December 31, 2001, and 650,146 shares and 20,040 options as of September 30, 2001.

EPS has been computed in accordance with SFAS No. 128, "Earnings Per Share." Basic EPS is calculated by dividing net income available to common stockholders (the numerator) by the weighted average number of common shares outstanding during the period (the denominator). Diluted EPS is computed by dividing net income available to common stockholders, adjusted for the effect of any outstanding dilutive securities (the numerator), by the weighted average number of common shares outstanding, adjusted for the dilutive effect of outstanding dilutive securities (the denominator). For the three months ended December 31, 2001 and 2000, basic and diluted EPS are the same, as any outstanding dilutive securities were antidilutive due to the net loss in both periods.

7. Comprehensive Loss

The Company's components of other comprehensive loss were as follows (in thousands):

	Three Months Ended December 31, 2001	Three Months Ended December 31, 2000
Net loss	$ (28,504)	$ (14,352)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(520)	539
Change in unrealized loss on investments	2,350	1,803
Comprehensive loss	$ (26,674)	$ (12,010)

The Company's components of accumulated other comprehensive loss at each balance sheet date were as follows (in thousands):

	Foreign Currency Translation Adjustments	Unrealized Investment Holding Loss	Accumulated Other Comprehensive Income
Balance, September 30, 2001	$ (8,425)	$ (2,350)	$ (10,775)
Fiscal 2002 year-to-date activity	(520)	(550)	(1,070)
Reclassification adjustment for loss included in net loss	-	2,900	2,900
Balance, December 31, 2001	$ (8,945)	$ -	$ (8,945)

8. Segment Information

The Company's products and services are currently organized within three business units: (1) ACI Worldwide, (2) Insession Technologies and (3) IntraNet, Inc. Another business unit, Health Payment Systems, was disbanded in fiscal 2001. ACI Worldwide products represent the Company's largest product line and include its most mature and well-established applications, which are used primarily by financial institutions, retailers and e-payment processors. Its products are used to route and process transactions for automated teller machine networks; process transactions from traditional point of sale devices, wireless devices and the Internet; handle PC and phone banking transactions; control fraud and money laundering; process electronic benefit transfer transactions; authorize checks; establish frequent shopper programs; automate settlement, card management and claims processing; and issue and manage multi-functional applications on smart cards. MDL activities are included in the ACI Worldwide business unit. Insession Technologies products facilitate communication, data movement, monitoring of systems and business process automation across computing systems, involving mainframes, distributed computing networks and the Internet. IntraNet, Inc. products offer high-value payments processing, bulk/recurring payments processing, wire room processing, global messaging, integration payments management and continuous link settlement processing.

The Company's chief operating decision makers review business unit financial information, presented on a consolidated basis, accompanied by disaggregated information about revenues and operating income (loss) by business unit. The Company does not track assets by business unit. No single customer accounted for more than 10% of the Company's consolidated revenue during the three months ended December 31, 2001 and 2000. The following are revenues and operating income (loss) for these business units for the periods indicated (in thousands):

	Three Months Ended December 31, 2001	Three Months Ended December 31, 2000
Revenues (1):		
ACI Worldwide	$ 45,906	$ 58,416
Insession Technologies	9,315	9,284
IntraNet, Inc	10,089	6,608
Health Payment Systems (HHPC only)	-	328
	$ 65,310	$ 74,636
Operating income (loss) (1):		
ACI Worldwide	$ (3,925)	$ 1,122
Insession Technologies	1,533	(757)
IntraNet, Inc	1,631	(2,897)
Health Payment Systems (HHPC only)	-	(1,392)
	$ (761)	$ (3,924)

(1) In the third quarter of fiscal 2001, the Company transferred its 70 percent ownership in Hospital Health Plan Corporation ("HHPC"), which comprised the majority of its Health Payment Systems business unit, to the minority shareholder. The remaining portion of the Health Payment Systems business unit, consisting of a health and drug claims adjudication facilities management services organization, was integrated into the ACI Worldwide business unit at the beginning of the fourth quarter of fiscal 2001. Prior period segment information has been restated to reflect this change.

Most of the Company's products are sold and supported through distribution networks covering the geographic regions of the Americas, Europe/Middle East/Africa ("EMEA") and Asia/Pacific. The following are revenues for the periods indicated and long-lived assets at each balance sheet date for these geographic regions (in thousands):

	Three Months Ended December 31, 2001	Three Months Ended December 31, 2000
Revenues:		
United States	$ 28,858	$ 32,005
Other Americas	9,361	8,986
Total Americas	38,219	40,991
EMEA	19,780	26,990
Asia/Pacific	7,311	6,655
	$ 65,310	$ 74,636

	Dec. 31, 2001	Sept. 30, 2001
Long-lived assets:		
United States	$ 76,816	$ 78,809
Other Americas	6,118	22,491
Total Americas	82,934	101,300
EMEA	11,626	28,960
Asia/Pacific	808	938
	$ 95,368	$ 131,198

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

Transaction Systems Architects, Inc. ("TSA" or the "Company") develops, markets, installs and supports a broad line of software products and services primarily focused on facilitating electronic payments and electronic commerce. In addition to its own products, the Company distributes, or acts as a sales agent for, software developed by third parties. The products and services are used principally by financial institutions, retailers and e-payment processors, both in domestic and international markets.

Business Segments

The Company's products and services are currently organized within three business units: (1) ACI Worldwide, (2) Insession Technologies and (3) IntraNet, Inc. Most of the Company's products and services are marketed and supported through distribution networks covering three geographic regions: the Americas, Europe/Middle East/Africa ("EMEA") and Asia/Pacific. Each distribution network has its own sales force and supplements this with reseller and/or distributor networks.

The following are revenues and operating income (loss) for these business units for the three months ended December 31, 2001 and 2000 (in thousands):

	Three Months Ended December 31, 2001	Three Months Ended December 31, 2000
Revenues (1):		
ACI Worldwide	$ 45,906	$ 58,416
Insession Technologies	9,315	9,284
IntraNet, Inc	10,089	6,608
Health Payment Systems (HHPC only)	-	328
	$ 65,310	$ 74,636
Operating income (loss) (1):		
ACI Worldwide	$ (3,925)	$ 1,122
Insession Technologies	1,533	(757)
IntraNet, Inc	1,631	(2,897)
Health Payment Systems (HHPC only)	-	(1,392)
	$ (761)	$ (3,924)

----
(1) In the third quarter of fiscal 2001, the Company transferred its 70 percent ownership in Hospital Health Plan Corporation ("HHPC"), which comprised the majority of its Health Payment Systems business unit, to the minority shareholder. The remaining portion of the Health Payment Systems business unit, consisting of a health and drug claims adjudication facilities management services organization, was integrated into the ACI Worldwide business unit at the beginning of the fourth quarter of fiscal 2001. Prior period segment information has been restated to reflect this change.

Backlog

The Company defines recurring revenue backlog to be all monthly license fees, maintenance fees and facilities management fees specified in executed contracts to the extent that the Company contemplates recognition of the related revenue within one year. The Company includes in its non-recurring revenue backlog all fees (other than recurring) specified in executed contracts to the extent that the Company contemplates recognition of the related revenue within one year.

The following table sets forth the Company's recurring and non-recurring revenue backlog, by business unit, as of December 31, 2001 and 2000 (in thousands):

	Recurring Revenue Backlog		Non-Recurring Revenue Backlog	
	December 31,		December 31,	
	2001	2000	2001	2000

ACI Worldwide	$ 98,600	$ 100,000	$ 24,700	$ 36,000
Insession Technologies	15,200	18,000	4,900	3,200
IntraNet, Inc	16,400	16,400	15,300	9,100
Health Payment Systems (HHPC only)	-	1,400	-	-
	$ 130,200	$ 135,800	$ 44,900	$ 48,300

There can be no assurance that contracts included in recurring or non-recurring revenue backlog will actually generate the specified revenues or that the actual revenues will be generated within the one-year period.

Results of Operations

The following table sets forth certain financial data and the percentage of total revenues of the Company for the periods indicated (amounts in thousands):

	Three Months Ended December 31,			
	2001		2000	
	Amount	% of Revenue	Amount	% of Revenue
Revenues:				
ILFs and PUFs	$ 18,069	27.7 %	$ 20,099	26.9 %
MLFs (other than Recognized-Up-Front MLFs)	12,207	18.7	13,244	17.8
Recognized-Up-Front MLFs	4,045	6.2	9,124	12.2
Total software license fees	34,321	52.6	42,467	56.9
Maintenance fees	19,478	29.8	15,965	21.4
Services	11,511	17.6	16,204	21.7
Total revenues	65,310	100.0	74,636	100.0
Expenses:				
Cost of software license fees	10,995	16.8	11,591	15.5
Cost of maintenance and services	15,768	24.1	18,711	25.1
Research and development	9,049	13.9	10,069	13.5
Selling and marketing	16,622	25.5	19,695	26.4
General and administrative	13,637	20.9	16,127	21.6
Amortization of goodwill	-	0.0	2,367	3.2
Total expenses	66,071	101.2	78,560	105.3
Operating loss	(761)	(1.2)	(3,924)	(5.3)
Other income (expense):				
Interest income, net	920	1.4	205	0.3
Other	(4,006)	(6.1)	(14,038)	(18.8)
Total other	(3,086)	(4.7)	(13,833)	(18.5)
Loss before income taxes	(3,847)	(5.9)	(17,757)	(23.8)
Income tax benefit	1,047	1.6	3,405	4.6
Loss from continuing operations before cumulative effect of accounting change	(2,800)	(4.3)	(14,352)	(19.2)
Cumulative effect of accounting change	(25,704)	(39.3)	-	0.0
Net loss	$ (28,504)	(43.6)%	$ (14,352)	(19.2)%

Revenues. Total revenues for the first quarter of fiscal 2002 decreased $9.3 million, or 12.5%, from the comparable period in fiscal 2001. The decrease is the result of a $8.1 million, or 19.2%, decrease in software license fees revenue and a decrease of $4.7 million, or 29.0%, decrease in services revenue offset by a $3.5 million, or 22.0%, increase in maintenance fees revenue.

The decrease in software license fee revenues for the first quarter fiscal 2002 is primarily the result of a decreased demand for the Company's ACI Worldwide products, offset by a slight increase in demand for Insession Technologies' and IntraNet, Inc.'s products. The decrease in demand for ACI Worldwide's products is due to fewer transaction volume upgrades received during the first quarter of fiscal 2002 as compared to the first quarter of fiscal 2001. This decrease is due to current global economic conditions that have caused many of the Company's customers to forecast a slowing of electronic transaction volume growth. As a result, these customers have reduced their information technology budgets and spending commitments. For ACI Worldwide, the first quarter of fiscal 2001 included a $6.2 million transaction volume upgrade that resulted from a merger of two banks in the EMEA region. Revenue from the first quarter of fiscal 2002 does not include any transactions of this size.

In fiscal 2001, the Company changed its sales compensation plans for its ACI Worldwide and Insession Technologies sales forces to emphasize PUF contracts for both customer renewals and new customers rather than emphasizing ILF/MLF contracts. Over time, the impact of this change is to increase the amount of PUF revenue and reduce the amount of MLF revenue.

The increase in maintenance fee revenues is due to the growth in the installed base of the Company's software products in all three of its business units.

The decrease in services revenue for the first quarter of fiscal 2002 resulted from lower demand for technical and project management services, which was primarily caused by decreased sales of the Company's ACI Worldwide products. Offsetting this decrease was an increase is services revenues in the Company's IntraNet, Inc. business unit related to services performed while migrating customers to its new RS6000-based wire transfer product.

Expenses. Total operating expenses for the first quarter of fiscal 2002 decreased $10.1 million, or 13.3%, as compared to the first quarter of fiscal 2001 (excluding $2.4 million of goodwill amortization charges in the first quarter of fiscal 2001). During the third quarter of fiscal 2001, the Company implemented a restructuring plan whereby it closed or significantly reduced the size of certain product development organizations and geographic sales offices, made executive management changes and transferred ownership in HHPC to the minority shareholder. These actions have caused the Company's overall operating expenses to decline.

Cost of software license fees for the first quarter of fiscal 2002 decreased $0.6 million, or 5.1%, as compared to the first quarter of fiscal 2001. This decrease was due primarily to a decrease in royalties owed to the owners of third-party products resulting from decreases in third-party product sales volumes and a decrease in the royalty rate for one third-party product.

Cost of maintenance and services for the first quarter of fiscal 2002 decreased $2.9 million, or 15.7%, as compared to the first quarter of fiscal 2001. This decrease was the result of fewer staff needed to support the Company's services-related business.

Research and development ("R&D") costs for the first quarter of fiscal 2002 decreased $1.0 million, or 10.1%, as compared to the first quarter of fiscal 2001. The Company terminated further development of certain products as part of the fiscal 2001 corporate restructuring, causing this decrease. R&D costs as a percentage of total revenues for the first quarter of fiscal 2002 were 13.9% as compared to 13.5% for the first quarter of fiscal 2001. The Company capitalizes costs related to certain internally-developed software when the resulting products reach technological feasibility. Software development costs capitalized in the first three months of fiscal 2002 and 2001 totaled approximately $0.3 million and $1.5 million, respectively.

Selling and marketing costs for the first quarter of fiscal 2002 decreased $3.1 million, or 15.6%, as compared to the first quarter of fiscal 2001. Selling and marketing costs as a percentage of total revenues for the first quarter of fiscal 2002 were 25.5% as compared to 26.4% for the first quarter of fiscal 2001. The decrease for the first quarter of fiscal 2002 is due to a decrease in variable sales compensation expense resulting from less than expected sales and profitability, as well as reduced costs resulting from the fiscal 2001 corporate restructuring.

General and administrative costs for the first quarter of fiscal 2002 decreased $2.5 million, or 15.4%, as compared to the first quarter of fiscal 2001. The decrease for the first quarter of fiscal 2002 as compared to the same period in fiscal 2001 is attributable to reductions in personnel and occupancy costs resulting from the fiscal 2001 corporate restructuring, as well as a decrease in bad debts expense.

Other Income and Expenses. The increase in net interest income in fiscal 2002 is primarily due to a decrease in borrowings on the Company's line of credit facilities, resulting in decreased interest expense, as well as an increase in interest income which resulted from an increase in the Company's cash balance.

The Company continually evaluates its investment holdings for evidence of impairment. After considering current market conditions for technology companies and specific information regarding those companies in which the Company has an ownership interest, the Company determined that the declines in market value for certain of its investment holdings were "other than temporary" and charges to earnings for the declines in market value were required. Therefore, the Company recorded non-cash charges of $2.9 million and $12.4 million during the three months ended December 31, 2001 and 2000, respectively. In addition, the Company expensed costs of $1.9 million associated with the cancelled initial public offering of its wholly-owned subsidiary, Insession Technologies, Inc. in the three months ended December 31, 2000. Also included in other expenses are foreign currency translation gains and losses recognized by the Company.

Income Taxes. The effective tax rate for the first quarter of fiscal 2002 was approximately 20% as compared to 19% for the first quarter of fiscal 2001. The Company adopted SFAS No. 142 (see Footnote 5 for further details) as of October 1, 2001. As a result of adopting SFAS No. 142, the Company recognized an impairment loss on the carrying value of recorded goodwill and realized an income tax benefit resulting from this impairment loss. The effective tax rate for the first quarter of fiscal 2002 is lower than would be expected as the Company recorded a valuation reserve against a portion of this tax benefit.

As of December 31, 2001, the Company has deferred tax assets of $58.4 million and deferred tax liabilities of $2.0 million. Each quarter, the Company evaluates its historical operating results as well as its projections for the future to determine the realizability of the deferred tax assets. This analysis resulted in a valuation allowance of $26.4 million being recorded as of December 31, 2001. The Company intends to analyze the realizability of the net deferred tax assets at each future reporting period. Such analysis may indicate that the realization of various deferred tax benefits has changed and, therefore, the valuation reserve may be adjusted accordingly.

Liquidity and Capital Resources

As of December 31, 2001, the Company's principal sources of liquidity consisted of $36.8 million in cash and cash equivalents, and available bank lines of credit. The Company has a $25.0 million bank line of credit agreement with a large United States bank secured by certain trade receivables of TSA. This credit agreement provides that the Company must satisfy certain specified earnings, working capital and minimum tangible net worth requirements, as defined, and places restrictions on the Company's ability to, among other things, sell assets, incur debt, pay dividends, participate in mergers and make investments or guarantees. The Company also has a line of credit agreement with a large foreign bank in the amount of 3.0 million British Sterling, which translates to approximately $4.4 million as of December 31, 2001. The foreign credit agreement requires the Company to maintain minimum tangible net worth within the Company's wholly-owned subsidiary, ACI Worldwide (EMEA) Ltd. Line of credit borrowings outstanding totaled $5.0 million as of December 31, 2001. The remaining $24.4 million is available to the Company for future borrowings. The Company is in compliance with all debt covenants as of December 31, 2001.

The Company's net cash flows provided by operating activities for the first quarter of fiscal 2002 amounted to $14.2 million. Net cash used in operating activities during the first quarter of fiscal 2001 was $9.0 million. In an effort to enhance upfront software license fee payments, the Company adopted an initiative in fiscal 2001 to pursue PUF payment options for its software licensing rather than ILF/MLF payment options. Under the PUF payment option, the licensee pays the license fee at the beginning of the software term whereas under the ILF/MLF payment option, the licensee pays a portion of the software license fees at the beginning of the software term and the remaining portion over the software license term. The improvement in operating cash flows in the first quarter of fiscal 2002 as compared to the first quarter of fiscal 2001 was primarily due to a decrease in billed and accrued receivables, which is due in part to the Company's emphasis on PUF contracts rather than ILF/MLF contracts.

An important contributor to the cash management program is the Company's factoring of accrued receivables, whereby an interest in its accrued receivables is transferred on a non-recourse basis to third-party financial institutions in exchange for cash. During the first quarter of fiscal 2002 and 2001, the Company generated operating cash flows from the factoring of accrued receivables of $5.8 million and $3.1 million, respectively.

The Company's net cash flows used in investing activities totaled $3.4 million and $5.0 million during the first quarter of fiscal 2002 and 2001, respectively. The decrease in cash used in investing activities was due to decreased additions of investments, notes receivable and software, offset by increased purchases of property and equipment.

The Company's net cash flows used in financing activities was $5.9 million for the first quarter of fiscal 2002. Net cash provided by financing activities was $11.1 million in the first quarter of fiscal 2001. During the first quarter of fiscal 2002, the Company had net payments on its bank line of credit facilities of $7.0 million as compared to net borrowings of $10.8 million during the comparable period of fiscal 2001.

The Company believes that its existing sources of liquidity, including cash provided by operating activities along with cash generated from its factoring program and borrowings available under its credit facilities, will satisfy the Company's projected working capital and other cash requirements for the foreseeable future.

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 include words or phrases such as "management anticipates," "the Company believe," "the Company anticipates," "the Company expects," "the Company plans," "the Company will," and words and phrases of similar impact, and include but are not limited to statements regarding operations, business strategy and business environment. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially. Factors that could cause actual results to differ include, but are not limited to, the following:

- The Company will continue to derive a majority of its total revenue from international operations and is subject to risks of conducting international operations including: difficulties in staffing and management, reliance on independent distributors, longer payment cycles, volatilities of foreign currency exchange rates, compliance with foreign regulatory requirements, variability of foreign economic conditions, and changing restrictions imposed by U.S. export laws.

- The Company will continue to derive a substantial majority of its total revenue from licensing its BASE24 family of software products and providing services and maintenance related to those products. Any reduction in demand for, or increase in competition with respect to, BASE24 products would have a material adverse effect on the Company's financial condition and results of operations.

- The Company will continue to derive a substantial portion of its revenues from licensing of software products that operate on Compaq computers. Any reduction in demand for these computers or in Compaq's ability to deliver products on a timely basis could have a material adverse effect on the Company's financial condition and results of operations. Compaq has announced that it is planning to consolidate its high-end performance enterprise servers on the Intel Corp. Itanium microprocessor by 2004. Also, Compaq is contemplating a merger with Hewlett-Packard Co. The Company has not determined whether the consolidation of the high-end servers, if it occurs as announced, or the merger, if consummated, would materially affect the Company's business, financial position or results of operations.

- The Company's business is concentrated in the banking industry, making it susceptible to a downturn in that industry. Further, banks are continuing to consolidate, decreasing the overall number of potential buyers of TSA's products and services.

- New accounting standards, or additional interpretations or guidance regarding existing standards, could be issued in the future, which could lead to unanticipated changes in the Company's current financial accounting policies. These changes could affect the timing of revenue or expense recognition and cause fluctuations in operating results.

- Fluctuations in quarterly operating results may result in volatility in the Company's stock price. No assurance can be given that operating results will not vary. The Company's stock price may also be volatile, in part, due to external factors such as announcements by third parties or competitors, inherent volatility in the high-technology sector and changing market conditions in the industry.

- The Company has expanded and may seek to continue to expand its operations through the acquisition of additional businesses. Acquisitions involve many risks that could have a material adverse effect on the Company's business, financial condition and results of operations. Management's negotiations of potential acquisitions and the integration of acquired businesses or technologies could divert their time and resources. Further, the Company may not be able to properly integrate acquired businesses or technology with its existing operations, train and motivate personnel from the acquired business, or combine potentially different corporate cultures.

For a detailed discussion of these and other risk factors, interested parties should review the Company's filings with the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes to the Company's market risk for the three months ended December 31, 2001. See the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001 for additional discussions regarding quantitative and qualitative disclosures about market risk.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

10.37 Employment Agreement between Transaction Systems Architects, Inc. and Gregory D. Derkacht

(b) Reports on Form 8-K:

None.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRANSACTION SYSTEMS ARCHITECTS, INC.
(Registrant)

Dated: February 12, 2002 By: /s/ EDWARD C. FUXA

Edward C. Fuxa
Chief Accounting Officer, Vice President
and Controller

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into as of this 3rd day of December, 2001, by and between Transaction Systems Architects, Inc., a Delaware corporation, ("Employer") and Gregory D. Derkacht ("Employee").

WITNESSETH:

WHEREAS, Employee and Employer desire to enter into this Agreement pertaining to the terms of the employment of Employee by Employer;

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1. Employment. Employer hereby agrees to employ Employee as President and Chief Executive Officer ("CEO"), and Employee hereby accepts such employment by Employer upon the terms and conditions and with such duties as determined by the Board of Directors of Employer from time to time and which shall be related or appropriate to the position.

2. Term. The term of employment under this Agreement shall commence on January 2, 2002, and shall continue for a period of three years thereafter, unless sooner terminated as hereinafter set forth in Section 6, subject to certain provisions surviving termination as set forth below. Thereafter this Agreement and the term of employment pursuant hereto will be automatically extended for successive one-year terms, unless either party elects to terminate this Agreement by giving the other party written notice thereof not less than 90 days prior to the end of the then-current term.

3. Duties. Employee shall, during the term hereof:

(a) Execute Duties. Execute the duties attendant to his position as determined and directed by the Board of Directors from time to time;

(b) Board Service. Serve as a member of the Employer's Board of Directors.

(c) Full Efforts and Time. Consistent with the foregoing, Employee shall devote full business time, energy, and skill to the businesses of Employer, and to the promotion of Employer's best interests; provided, however, that this Agreement shall not preclude Employee from participating in the affairs of any governmental, educational or other charitable institution, from engaging in professional speaking and writing activities, and from serving as a member of the board of directors of other corporations or entities (subject to the approval by the Chairman of the Board of Directors of Employer) so long as such activities do not unreasonably interfere with the businesses of Employer or conflict with Employee's obligations under this Agreement.

4. Compensation.

(a) Base. Subject to Section 3(d) above, Employer shall pay Employee for all services to be performed by Employee during the term of this Agreement a base salary (the "Base Salary") at the minimum rate of $300,000 per year, payable in substantially equal semi-monthly payments in accordance with Employer's customary practice for other employees, as such practice may be determined from time to time. The Board of Directors may increase such Base Salary but not decrease such Base Salary unless, as a result of a reasonable business judgment by the Board of Directors of Employer, there is a prorata across-the-board salary reduction for all executive level management employees of Employer.

(b) Management Incentive Compensation. In addition to the Base Salary, Employee shall be entitled to participate in the Employer's Management Incentive Compensation Program ("MICP"). Employee's "on target" incentive compensation will be $150,000 per fiscal year prorated quarterly in the amount of $37,500. The amount of incentive compensation payable to Employee with respect to a fiscal quarter will depend on the achievement of certain financial results achieved by Employer in such fiscal quarter. The Board of Directors may increase the incentive compensation paid or payable to Employee pursuant to the MICP, but not decrease such incentive compensation unless, as a result of a reasonable business judgment by the Board of Directors of Employer, there is a prorata across-the-board decrease for all executive level management employees of Employer. The terms and conditions of the MICP applicable to Employee are attached hereto as Exhibit A.

(c) Business Expenses. In addition to the Base Salary set forth above, Employer agrees that during the term of this Agreement

Employee shall be entitled to reimbursement by Employer for all reasonable and documented business expenses incurred by him on Employer's behalf in the course of his employment hereunder in accordance with Employer's policy concerning the same.

(d) Board Service. No separate or additional compensation will be paid to Employee with respect to service on the Board of Directors.

(e) Stock Options. Employee will receive three stock option grants from the Employer's existing stock option plans. The first grant will be in the amount of 100,000 shares and will be made January 2, 2002. Subject to shareholder approval, the second and third grants will be in the amount of 200,000 shares each and will be made February 19, 2002. The terms and conditions for each of the grants are set forth in separate stock option agreements. The stock option agreements for each of the grants are attached hereto as Exhibits B, C and D, respectively.

5. Additional Benefits. Employee and his dependents shall be entitled to participate in and receive health insurance and other benefits ("Benefit Plans") under the Employer's Benefit Plans, whether qualified or non-qualified, subject to and on a basis consistent with the terms, conditions, and overall administration of such Benefit Plans as provided to similarly situated employees of Employer, as changed from time to time. Employee shall be entitled to paid vacation and holidays in accordance with Employer's policies in effect from time-to-time for its employees.

6. Termination.

(a) Types of Termination.

(i) For Cause by Employer. The Board of Directors of Employer, upon written notice to Employee setting forth the reason for such action, may terminate the employment of Employee with Employer at any time for "Cause." For purposes of the preceding sentence, "Cause" shall be deemed to exist if the Board of Directors of Employer, in good faith, determines that the Employee has engaged in gross and flagrant non-performance, misconduct or negligence of his duties or gross and flagrant dishonesty relating to the business of Employer.

(ii) By Employee Voluntarily. Employee may terminate his employment voluntarily hereunder thirty (30) days after providing Employer written notice setting forth his intention to do so.

(iii) Death or Disability of Employee. If Employee's employment is terminated during the term of this Agreement due to the death or disability of Employee, then an amount equal to Employee's Base Salary (at the rate most recently in effect) shall be paid through the date of his death or disability, plus an amount in respect of any accrued but unused vacation days. Employee's beneficiaries shall also receive any insurance benefits under the Benefit Plans to which Employee or his beneficiaries are entitled on the date of his death or disability.

As used in this Agreement, the term "Disability" shall mean, first, the definition as set forth in the current long-term disability policy covering the Employee, but if no such disability policy exists, then "Disability" shall mean the inability of Employee, due to a physical or mental disability, for a period of sixty (60) days, whether or not consecutive, during any one hundred eighty (180) day period, to perform the services contemplated under this Agreement .

In the case of the disability or death of Employee, the Noncompetition and Confidentiality and other provisions of Sections 7 and 8 hereof shall remain in effect.

(iv) Without Cause by Employer. Employer may terminate the employment of Employee at any time without cause after providing Employee with 30 days written notice setting forth its intention to do so.

(iv) Expiration of Term. The expiration of this Agreement is by its own term, as set forth in Section 2.

(b) Compensation on Termination. If Employee is terminated for cause, death or disability, or voluntarily terminates his employment, or if this Agreement terminates by its own term, he shall not be entitled to any compensation following the date of termination as defined below (the "Termination Date"):

(i) for cause by Employer - immediately upon notice by Employer;

(ii) for death or disability - upon the date of such occurrence;

(iii) for voluntary termination - the thirtieth (30th) day following notice by Employee to Employer; and

(iv) by its own term - upon the date set forth in Section 2.

(c) Compensation for Termination Without Cause. In the event Employee is terminated by Employer without cause, Employer shall pay to Employee $150,000.

(d) Change in Control Compensation. Employee shall be entitled to compensation if (i) there is a Change in Control of the Employer while Employee is still an employee of Employer and (ii) Employee's employment with Employer is terminated by Employer or by Employee for Good Reason within two years after the Change in Control as a direct or indirect result of the Change in Control, but not as a result of (A) Employee's death or disability, (B) Employee's Retirement, (C) Employee's termination for Cause by Employer, or (D) Employee's decision to terminate employment other than for Good Reason ("Change in Control Compensation"). "Change in Control" is defined in Exhibit E ("Definitions"). The Change in Control Compensation to be paid to Employee in the event of a Change in Control will be equal to one times the Base Salary set forth in Section 4 above. The Change in Control Compensation will be paid within five (5) business days of the Change in Control.

(e) Other Compensation and Benefits. Other than as provided in Section 6(a)(iii) hereof, upon termination for any reason, Employee shall be entitled to receive only that compensation and other benefits that have vested and that are due and earned as of the Termination Date, and such payment shall be made to Employee within sixty (60) days.

(f) Full Satisfaction. The payments to Employee pursuant to this Agreement shall be in full satisfaction of Employee's rights to compensation hereunder.

7. Noncompetition, Noninducement, Nonsolicitation.

(a) Employee hereby agrees that commencing on the date of this Agreement and continuing through 180 days after the termination date (the "Non-Compete Period"), he shall not singly, jointly, or as a member, employee, or agent of any partnership or as an officer, agent, employee, director or stockholder, or investor of any other corporation or entity, or in any other capacity, which is engaged in a similar business to that of Employer during the period of non-competition:

(i) solicit, contact and/or service any person, firm, corporation, partnership, or entity of any kind whatsoever for purposes which are competitive to that of Employer, and for purposes similar to those performed by Employee for Employer, a client of Employer for which Employee performed service or had personal contact with on behalf of Employer during the last one (1) year of Employee's employment with Employer; provided, that Employee shall be able to acquire and hold up to 1% of the outstanding shares of any publicly traded stock of any company, and an unlimited percentage of outstanding shares in the Employer, its parent, affiliates, or subsidiaries; and

(ii) directly or indirectly induce or attempt to induce any person who, during the term of Employee's employment hereunder, was an employee, representative or agent of Employer or any of its affiliates to terminate his employment with Employer or any of its affiliates, or to violate the terms of any agreement between said

employee, representative or agent and
Employer or any of its affiliates.

(b) It is understood and agreed by Employer and Employee that the time periods of the restrictions set forth in Section 7(a) of this Agreement are intended by Employer and Employee to be extended by any time period during which Employee violates the terms and conditions of Section 7(a). Notwithstanding anything which could be construed to the contrary, this Section 7(b) is not intended to and shall not be deemed to permit Employee to violate any term or condition of Section 7(a).

(c) In the event any of the provisions of this Agreement shall be held to be invalid or unenforceable, the remaining portions thereof shall nevertheless continue to be valid and enforceable as though the invalid or unenforceable parts had not been included herein.

(d) Employer and Employee specifically agree that the provisions of Sections 7, 8, 9, and 10 shall survive the termination of this Agreement.

(e) Employer and Employee agree that the provisions of this Section 7 may be waived in whole or in part by mutual agreement in writing by Employer and Employee.

8. Confidentiality. Without the consent of Employer, Employee will not, during his Employment or after termination of this Agreement, (a) disclose any trade secret or proprietary or confidential knowledge or information of Employer or any affiliate of Employer to any person or entity (other than to Employer or shareholders, directors, officers or employees of Employer or representatives thereof), or (b) otherwise make use of any such secret, knowledge or information for other than Employer's purposes, unless in the case of (a) or (b) above such secret, knowledge or information is readily ascertainable from publicly available information. Employee will hold confidential, on behalf of Employer as the property of Employer, all memoranda, manuals, books, papers, letters, documents, computer software and other similar property obtained during the course of performing duties under this Agreement, and will return such property to Employer at any time upon demand by Employer and, in any event, within three (3) calendar days after termination of his employment under this Agreement or after the end of the term of this Agreement.

9. Developments.

(a) As used in this Agreement, the term "Employee Developments" shall mean all technological, financial, operating and training ideas, processes, methods and materials, specifically including, but not limited to, all inventions, discoveries, improvements, devices, apparatus, designs, practices, processes, methods, formulas, know-how, products, enhancements and all software, computer programs (including source code, object code, documentation and programmer's notes) and other works of authorship, whether or not patentable or copyrightable, developed, written, conceived or reduced to practice during Employee's employment by the Company or within a period of 90 days thereafter (i) which result from any work performed by Employee for the Employer, or (ii) which relate to the Employer's business or research or development of the Employer at the time Employee develops, writes, conceives or reduces to practice any of the foregoing, alone or with others.

(b) Employee shall promptly disclose all Employee Developments to the Employer and make available to the Employer any work papers, drawings, designs, schematics, specifications, descriptions, models, diskettes, computer tapes, source codes or other tangible incidents of Employee Developments. Employee agrees that all Employee Developments shall be considered work made by Employee for the Employer and prepared within the scope of Employee's employment and that all right, title and ownership interest in and to the Employee Developments, including, without limitation, copyright, trade secret, patent or other intellectual property rights, shall exclusively vest in and be retained by the Employer, both during and following the term of employment. Employee agrees to perform upon request of the Employer any acts that may be necessary or convenient during his term of employment or thereafter to establish, perfect, evidence, register, transfer, assign or convey ownership of Employee Developments in or to the Employer, to the fullest extent possible, including without limitation, assignment to the Employer of all ownership, copyright, trade secret, patent and other intellectual property rights without any further consideration.

10. Remedies.

(a) Employer shall be entitled, if it elects, to enjoin any breach or threatened breach of, or enforce the specific performance of, the obligations of Employee under Sections 7 and 8, without showing any actual damage or that monetary damages would be inadequate. Any such equitable remedy will not be the sole and exclusive remedy for any such breach, and Employer may pursue other remedies for such a breach.

(b) Any court proceeding to enforce the specific performance provisions of this Agreement may be commenced in the federal courts located in the State of Nebraska, or in the absence of federal jurisdiction, the state courts of Nebraska having jurisdiction. Employer and Employee submit to the jurisdiction of such courts and waive any objection which they may have to the pursuit of any such proceeding in any such court for purposes of specific performance only.

11. Employer Assignment. Employer may assign this Agreement, provided, however, that in the event of such assignment by the Employer, Employer's obligations hereunder shall be binding legal obligations and shall inure to the benefit of any successor.

12. Relocation. Employee agrees to relocate to Omaha, Nebraska, for the term of this Agreement. Employer will pay for movement of Employee's household and personal belongings. Employer will pay for real estate commission and other customary and reasonable closing costs associated with the sale of Employee's current home in Chicago. Employer will not pay for any fees or costs associated with the purchase of a home in Omaha. Employer will pay for two house-hunting trips in Omaha for Employee and spouse. No tax gross-up or equalization allowances will be provided. Temporary housing in Omaha and related travel to and from Chicago will be provided and paid for by the Employer while Employees attempts to sell home in Chicago. Payment by Employer for such expenses will cease at the earlier of (1) Employee moving into a new residence in Omaha; (2) closing the sale of Employee's Chicago house; or (3) March 31, 2002.

13. Benefits Unfunded. All rights of Employee and his spouse or other beneficiary under this Agreement shall at all times be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of Employer for payment of any amounts due hereunder. Neither Employee nor his spouse or other beneficiary shall have any interest in or rights against any specific assets of Employer.

14. Waiver. No waiver by any party at any time of any breach by any other party of, or compliance with, any condition or provision of this Agreement to be performed by any other party shall be deemed a waiver of any other provisions or conditions at the same time or at any prior or subsequent time.

15. Applicable Law. This Agreement shall be construed and interpreted pursuant to the laws of the State of Nebraska without giving effect to the conflict of laws provisions thereof.

16. Entire Agreement. This Agreement contains the entire Agreement between Employer and Employee and supersedes any and all previous agreements, written or oral, between the parties relating to the subject matter hereof. No amendment or modification of the terms of this Agreement shall be binding upon the parties hereto unless reduced to writing and signed by Employer and Employee.

17. Counterparts. This Agreement may be executed in counterparts and by facsimile signatures, each of which shall be deemed an original, and all of which taken together shall constitute one instrument.

18. Severability. In the event any provision of this Agreement is held illegal or invalid, the remaining provisions of this Agreement shall not be affected thereby.

19. Notice. Notices under this Agreement shall be in writing and sent by registered mail, return receipt requested, to the following addresses or to such other addresses as the party being notified may have previously furnished to the others by written notice.

If to Employer or its Board of Directors:

Transaction Systems Architects, Inc.
Attn: Chairman of the Board of Directors
224 South 108th Avenue
Omaha, NE 68154

with a copy to:

Transaction Systems Architects, Inc.
Attn: General Counsel
224 South 108th Avenue
Omaha, Nebraska 68154

If to Employee:

____
____
____

Such notices shall be deemed received three (3) business days after they are so sent.

IN WITNESS WHEREOF, the parties have executed this Agreement, on the day and year first above written.

Transaction Systems Architects, Inc.
("Employer")

By: ______________________________
Name: ______________________________
Title: ______________________________

Gregory D. Derkacht
("Employee")

____

Attachments:

Exhibit A: Management Incentive Compensation Program
Exhibit B: First Stock Option Grant
Exhibit C: Second Stock Option Grant
Exhibit D: Third Stock Option Grant
Exhibit E: Definitions