SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

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

For the quarterly period ended March 31, 1998

OR

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

For the transition period from ___ to__ .

Commission File Number 0-25346

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
(Address of principal executive offices, including zip code)

(402) 334-5101
(Registrant's telephone number, including area code)

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

Yes _X_ No__

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

27,266,614 shares of Class A Common Stock at May 7, 1998
1,171,252 shares of Class B Common Stock at May 7, 1998

TRANSACTION SYSTEMS ARCHITECTS, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1998
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TRANSACTION SYSTEMS ARCHITECTS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited and in thousands)

| | March 31, 1998 | September 30, 1997 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 49,370 | $ 46,600 |
| Billed receivables, net | 44,675 | 39,864 |
| Accrued receivables | 24,135 | 25,063 |
| Deferred income taxes | 4,312 | 3,517 |
| Other | 2,714 | 3,043 |
| Total current assets | 125,206 | 118,087 |
| Property and equipment, net | 17,006 | 16,263 |
| Software, net | 6,476 | 6,105 |
| Intangible assets, net | 10,262 | 9,539 |
| Installment receivables | 1,029 | 2,394 |
| Investments and notes receivable | 12,615 | 7,969 |
| Other | 4,706 | 4,877 |
| Total assets | $ 177,300 | $ 165,234 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 829 | $ 768 |
| Current portion of capital lease obligations | 432 | 524 |
| Accounts payable | 7,300 | 7,896 |
| Accrued employee compensation | 5,135 | 5,559 |
| Accrued liabilities | 10,894 | 9,048 |
| Income taxes | 5,336 | 6,230 |
| Deferred revenue | 22,071 | 28,792 |
| Total current liabilities | 51,997 | 58,817 |
| Long-term debt | 1,062 | 1,465 |
| Capital lease obligations | 1,277 | 914 |
| Total liabilities | 54,336 | 61,196 |
| Stockholders' equity: | | |
| Class A Common Stock | 136 | 134 |
| Class B Common Stock | 6 | 6 |
| Additional paid-in capital | 108,227 | 103,708 |
| Accumulated translation adjustments | (949) | (260) |
| Retained earnings | 15,556 | 462 |
| Treasury stock, at cost | (12) | (12) |
| Total stockholders' equity | 122,964 | 104,038 |
| Total liabilities and stockholders' equity | $ 177,300 | $ 165,234 |

See notes to condensed consolidated financial statements.

TRANSACTION SYSTEMS ARCHITECTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited and in thousands, except per share amounts)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |
| Revenues: | | | | |
| Software license fees | $ 37,879 | $ 31,179 | $ 73,653 | $ 58,318 |
| Maintenance fees | 12,236 | 10,179 | 23,585 | 20,285 |
| Services | 13,065 | 11,309 | 25,613 | 23,350 |
| Hardware, net | 1,019 | 784 | 2,407 | 1,337 |
| Total revenues | 64,199 | 53,451 | 125,258 | 103,290 |
| Expenses: | | | | |
| Cost of software license fees: | | | | |
| Software costs | 7,315 | 6,364 | 14,597 | 11,919 |
| Amortization of purchased software | - | - | - | 801 |
| Cost of maintenance and services | 14,343 | 12,305 | 27,678 | 25,017 |
| Research and development | 5,578 | 4,624 | 11,083 | 8,703 |
| Selling and marketing | 14,443 | 12,030 | 28,195 | 22,599 |
| General and administrative: | | | | |
| General and administrative costs | 10,223 | 8,777 | 19,897 | 17,068 |
| Amortization of goodwill and purchased intangibles | 414 | 237 | 729 | 454 |
| Total expenses | 52,316 | 44,337 | 102,179 | 86,561 |
| Operating income | 11,883 | 9,114 | 23,079 | 16,729 |
| Other income (expense): | | | | |
| Interest income | 723 | 498 | 1,314 | 940 |
| Interest expense | (78) | (24) | (98) | (81) |
| Other | 26 | (227) | (54) | (544) |
| Total other | 671 | 247 | 1,162 | 315 |
| Income before income taxes | 12,554 | 9,361 | 24,241 | 17,044 |
| Provision for income taxes | (4,700) | (3,838) | (9,147) | (7,253) |
| Net income | $ 7,854 | $ 5,523 | $ 15,094 | $ 9,791 |
| Earnings Per Share Data: | | | | |
| Basic: | | | | |
| Net income | $ 0.28 | $ 0.20 | $ 0.54 | $ 0.35 |
| Average shares outstanding | 28,183 | 27,806 | 28,127 | 27,790 |
| Diluted: | | | | |
| Net income | $ 0.27 | $ 0.19 | $ 0.52 | $ 0.34 |
| Average shares outstanding | 29,108 | 28,592 | 29,086 | 28,603 |

See notes to condensed consolidated financial statements.

TRANSACTION SYSTEMS ARCHITECTS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the six months ended March 31, 1998
(unaudited and in thousands)

| | Class A Common Stock | Class B Common Stock | Additional Paid-in Capital | Accumulated Translation Adjustments | Retained Earnings | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|
| Balance, September 30, 1997 | $ 134 | $ 6 | $ 103,708 | $ (260) | $ 462 | $ (12) | $ 104,038 |
| Issuance of Class A Common Stock for purchase of Coyote Systems, Inc. | 1 | | 1,086 | | | | 1,087 |
| Exercise of stock options | 1 | | 1,100 | | | | 1,101 |
| Tax benefit of stock options exercised | | | 1,908 | | | | 1,908 |
| Sale of Class A Common Stock pursuant to Employee Stock Purchase Plan | | | 425 | | | | 425 |
| Net Income | | | | | 15,094 | | 15,094 |
| Translation adjustments | | | | (689) | | | (689) |
| Balance, March 31, 1998 | $ 136 | $ 6 | $ 108,227 | $ (949) | $ 15,556 | $ (12) | $ 122,964 |

See notes to condensed consolidated financial statements.

TRANSACTION SYSTEMS ARCHITECTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited and in thousands)

| | Six Months Ended March 31, 1998 | 1997 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 15,094 | $ 10,294 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 3,048 | 2,641 |
| Amortization | 2,162 | 2,518 |
| Increase in receivables, net | (3,942) | (10,954) |
| Decrease in other current assets | 492 | 2,242 |
| Decrease in installment receivables | 1,365 | 383 |
| Increase in other assets | (781) | (27) |
| Decrease in accounts payable | (674) | (1,070) |
| Decrease in accrued employee compensation | (505) | (2,209) |
| Increase in accrued liabilities | 1,515 | 3,739 |
| Increase (decrease) in income tax liabilities | 1,014 | (1,148) |
| Increase (decrease) in deferred revenue | (6,837) | 6,898 |
| Net cash provided by operating activities | 11,951 | 13,307 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (3,370) | (3,598) |
| Purchases of software and distribution rights | (1,667) | (1,497) |
| Acquisiton of businesses, net of cash acquired | (253) | (2,385) |
| Additions to investment and notes receivable | (4,751) | (3,061) |
| Proceeds from notes receivable repayments | 149 | 3,680 |
| Net cash used in investing activities | (9,892) | (6,861) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of Class A Common Stock | 426 | 392 |
| Proceeds from sale and exercise of stock options | 1,101 | 2,908 |
| Distribution to RVS owners | - | (3,306) |
| Payments of long-term debt | (363) | - |
| Payments on capital lease obligations | (64) | (51) |
| Net cash provided by (used in) financing activities | 1,100 | (57) |
| Effect of exchange rate fluctuations on cash | (389) | (39) |
| Increase in cash and cash equivalents | 2,770 | 6,350 |
| Cash and cash equivalents, beginning of period | 46,600 | 32,751 |
| Cash and cash equivalents, end of period | $ 49,370 | $ 39,101 |

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) develops, markets 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 software developed by third parties. The products are used principally by financial institutions, retailers and third-party processors, both in domestic and international markets.

The condensed consolidated financial statements at March 31, 1998 and for the three and six months ended March 31, 1998 and 1997 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, 1997. The results of operations for the three and six months ended March 31, 1998 are not necessarily indicative of the results for the entire fiscal year ending September 30, 1998.

The condensed consolidated financial statements include all domestic and foreign subsidiaries which are more than 50% owned and controlled. Investments in companies less than 20% owned are carried at cost.

## 2. Earnings Per Share

Effective October 1, 1997, the Company adopted Statement of Financial Accounting Standards No. 128 "Earnings Per Share." Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the periods. Diluted earnings per share is computed by dividing net income by the sum of the weighted average number of shares of common stock outstanding and the potential dilutive effect of the outstanding stock options associated with the Company's stock incentive plans.

## 3. Acquisitions

In October 1996, the Company completed the acquisition of Open Systems Solutions, Inc. (OSSI). Stockholders of OSSI received 210,000 shares of TSA Class A Common Stock in exchange for 100% of OSSI's common stock. The stock exchange was accounted for as a pooling of interests. OSSI's results of operations prior to the acquisition were not material.

In May 1997, the Company completed the acquisition of Regency Voice Systems, Inc. and related entities (RVS). Shareholders of RVS received 1,615,383 shares of TSA Class A Common Stock in exchange for 100% of RVS's shares. The stock exchange was accounted for as a pooling of interests. The accompanying condensed consolidated financial statements for the three and six months ended March 31, 1997 have been restated to reflect the results of operations of RVS.

In February 1998, the Company completed the acquisition of Coyote Systems, Inc. (Coyote). Shareholders of Coyote received 26,400 shares of TSA Class A Common Stock in exchange for 100% of Coyote's shares. The stock exchange has been accounted for using the purchase method of accounting and, accordingly, the cost in excess of the fair value of the net tangible assets acquired totaling approximately $1.1 million was allocated to goodwill.

## 4. Investment and Notes Receivable

In January 1996, the Company entered into a transaction with Insession, Inc. (Insession) whereby the Company acquired a 6% minority interest in Insession for $1.5 million. In addition, the Company has extended Insession $6.2 million in promissory notes as of March 31, 1998. The promissory notes bear an interest rate of prime plus 0.25%, and are payable in January 1999 ($1.0 million), January 2000 ($1.0 million) and January 2001 ($1.5 million). The remaining $2.7 million of promissory notes are payable upon demand. The promissory notes are secured by future royalties owed by the Company to Insession.

The Company has extended a $4.5 million line of credit facility to U.S. Processing, Inc. (USPI), a transaction processing business in which the Company has a 19.9% ownership interest. As of March 31, 1998, borrowings under the line of credit totaled $4.5 million.

## 5. Subsequent Events

In April 1998, the Company announced an agreement to acquire IntraNet, Inc. (IntraNet). IntraNet is a provider of electronic funds transfer and payment processing systems for financial institutions. Under the terms of the agreement, owners of IntraNet will receive approximately 1,225,000 shares of TSA Class A Common Stock in exchange for 100% of IntraNet's outstanding stock. The exchange is expected to be accounted for as a pooling of interests. The transaction, which is subject to certain conditions including IntraNet's shareholder approval, is scheduled to close on or about May 28, 1998.

In April 1998, the Company entered into a transaction with Nestor, Inc. (Nestor), whereby the Company acquired 2.5 million shares of Nestor's Common Stock for $5.0 million. In addition, the Company received warrants to purchase an additional 2.5 million shares at an exercise price of $3 per share. Nestor is a provider of neural-network solutions for financial, internet and transportation industries. The Company distributes Nestor's PRISM intelligent fraud detection product. The Company will account for the investment in Nestor's

Common Stock and warrants in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain investments in Debt and Equity Securities" as "available for sale."

In May 1998, the Company completed the acquisition of Edgeware, Inc. (Edgeware). Edgeware is a provider of customer specific marketing software and services to the retail industry. Under the terms of the agreement, owners of Edgeware received 143,436 shares of TSA Class A Common Stock in exchange for 100% of Edgeware's outstanding stock. The exchange will be accounted for as a pooling of interests.

TRANSACTION SYSTEMS ARCHITECTS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Results of Operations

The following table sets forth certain financial data and the percentage of total revenues of the Company for the periods indicated:

| | Three Months Ended March 31, | | | | Six Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 1998 | | 1997 | | 1998 | | 1997 | |
| | Amount | % of Revenue | Amount | % of Revenue | Amount | % of Revenue | Amount | % of Revenue |
| Revenues: | | | | | | | | |
| Software license fees | $ 37,879 | 59.% | $ 31,179 | 58.% | $ 73,653 | 58.% | $ 58,318 | 56.5 |
| Maintenance fees | 12,236 | 19.1 | 10,179 | 19.0 | 23,585 | 18.8 | 20,285 | 19.6 |
| Services | 13,065 | 20.4 | 11,309 | 21.2 | 25,613 | 20.4 | 23,350 | 22.6 |
| Hardware, net | 1,019 | 1.5 | 784 | 1.5 | 2,407 | 1.9 | 1,337 | 1.3 |
| Total revenues | 64,199 | 100.0 | 53,451 | 100.0 | 125,258 | 100.0 | 103,290 | 100.0 |
| Expenses: | | | | | | | | |
| Cost of software license fees: | | | | | | | | |
| Software costs | 7,315 | 11.4 | 6,364 | 11.9 | 14,597 | 11.7 | 11,919 | 11.5 |
| Amortization of purchased software | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 801 | 0.8 |
| Cost of maintenance and services | 14,343 | 22.3 | 12,305 | 23.0 | 27,678 | 22.1 | 25,017 | 24.2 |
| Research and development | 5,578 | 8.7 | 4,624 | 8.7 | 11,083 | 8.8 | 8,703 | 8.4 |
| Selling and marketing | 14,443 | 22.5 | 12,030 | 22.5 | 28,195 | 22.5 | 22,599 | 21.9 |
| General and administrative: | | | | | | | | |
| General and administrative costs | 10,223 | 15.9 | 8,777 | 16.4 | 19,897 | 15.9 | 17,068 | 16.5 |
| Amortization of goodwill and purchased intangibles | 414 | 0.7 | 237 | 0.4 | 729 | 0.6 | 454 | 0.4 |
| Total expenses | 52,316 | 81.5 | 44,337 | 82.9 | 102,179 | 81.6 | 86,561 | 83.8 |
| Operating income | 11,883 | 18.5 | 9,114 | 17.1 | 23,079 | 18.4 | 16,729 | 16.2 |
| Other income (expense): | | | | | | | | |
| Interest income | 723 | 1.1 | 498 | 0.9 | 1,314 | 1.0 | 940 | 0.9 |
| Interest expense | (78) | (0.1) | (24) | 0.0 | (98) | (0.1) | (81) | (0.1) |
| Other | 26 | 0.0 | (227) | (0.4) | (54) | 0.0 | (544) | (0.5) |
| Total other | 671 | 1.0 | 247 | 0.5 | 1,162 | 0.9 | 315 | 0.3 |
| Income before income taxes | 12,554 | 19.6 | 9,361 | 17.5 | 24,241 | 19.4 | 17,044 | 16.5 |
| Provision for income taxes | (4,700) | (7.4) | (3,838) | (7.2) | (9,147) | (7.3) | (7,253) | (7.0) |
| Net income | 7,854 | 12.0 | 5,523 | 10.0 | 15,094 | 12.0 | 9,791 | 10.0 |

Results of Operations (continued)

Revenues

Total revenues for the second quarter of fiscal 1998 increased 20.1% or $10.7 million over the comparable period in fiscal 1997. Of this increase, $6.7 million of the growth resulted from a 21.5% increase in software license fee revenue, $1.7 million from a 15.5% increase in services revenue and $2.1 million from a 20.2% increase in maintenance fee revenue.

Total revenues for the first half of fiscal 1998 increased 21.3% or $22.0 million over the comparable period in fiscal 1997. Of this increase, $15.3 million of the growth resulted from a 26.3% increase in software license fee revenue, $2.3 million from a 9.7% increase in services revenue and $3.3 million from a 16.3% increase in maintenance fee revenue.

The growth in software license fee revenue is the result of increased demand for the Company's BASE24 products and continued growth of the installed base of customers paying monthly license fee (MLF) revenue. Contributing to the strong demand for the Company's products is the continued world-wide growth of electronic payment transaction volume and the growing complexity of electronic payment systems. MLF revenue was $10.9 million in the second quarter of fiscal 1998 compared to $7.9 million in the second quarter of fiscal 1997. MLF revenue was $20.4 million in the first half of fiscal 1998 compared to $15.1 million in the first half of fiscal 1997.

The growth in services revenue for the second quarter and first half of fiscal 1998 is the result of increased demand for technical and project management services which is a direct result of the increased installed base of the Company's BASE24 products.

The increase in maintenance fee revenue for the second quarter and first half of fiscal 1998 is a result of the continued growth of the installed base of the Company's BASE24 products.

Expenses

Total operating expenses for the second quarter of fiscal 1998 increased 18.1% or $8.0 million over the comparable period in fiscal 1997. Total operating expenses for the first half of fiscal 1998 increased 18.0% or $15.6 million over the comparable period in fiscal 1997. The primary reason for the overall increase in operating expenses is the increase in staff required to support the increased demand for the Company's products and services. Total staff (including both employees and independent contractors) increased from 1,452 at March 31, 1997 to 1,700 at March 31, 1998.

The Company's operating margin for the second quarter of fiscal 1998 was 18.5% as compared to 17.1% for the comparable period in fiscal 1997. Operating margin for the first half of fiscal 1998 was 18.4% as compared to 16.2% for the first half of fiscal 1997. These improvements are primarily due to the impact of the growth in the Company's recurring revenues (MLF's, maintenance and facilities management fees) and the conclusion in December 1996 of the software amortization associated with the acquisition of Applied Communications, Inc. (ACI) and Applied Communications Inc. Limited (ACIL) in December 1993.

The Company's gross margin (total revenues minus cost of software and cost of maintenance and services) for the second quarter of fiscal 1998 was 66.3% as compared to 65.1% for the comparable period in fiscal 1997. The gross margin for the first half of fiscal 1998 was 66.2% as compared to 63.5% for the first half of fiscal 1997. The improvements are partly due to the conclusion of the software amortization associated with the acquisitions of ACI and ACIL.

EBITDA

The Company's earnings before interest expense, income taxes, depreciation and amortization (EBITDA) increased from $11.3 million in the second quarter of fiscal 1997 to $14.6 million in the second quarter of fiscal 1998. EBITDA increased from $21.9 million in the first half of fiscal 1997 to $28.3 million in the first half of fiscal 1998. The increase in EBITDA can be attributed to the continued growth in both recurring and non-recurring revenues more than offsetting the growth in operating expenses. EBITDA is not intended to represent cash flows for the periods.

Income Taxes

The effective tax rates for the second quarter and first half of fiscal 1998 were 37.4% and 37.7%, respectively. This compares to 39.1% for all of fiscal 1997. The decrease in the effective tax rates is principally the result of deferred tax assets which were recognized in the first half of fiscal 1998 which reduced the effective tax rates for those periods with no corresponding recognition of deferred tax assets in the second quarter and first half of fiscal 1997.

As of March 31, 1998, the Company has deferred tax assets of $15.8 million and deferred tax liabilities of $0.4 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 indicated that $4.3 million of the deferred tax assets were more likely than not to be realized. Accordingly, the Company has recorded a valuation allowance of $11.5 million as of March 31, 1998.



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 is more likely than not and, therefore, the valuation reserve may be reduced.

## Backlog

As of March 31, 1998 and 1997, the Company had non-recurring revenue backlog of $28.6 million and $23.5 million in software license fees, respectively, and $24.7 million and $15.5 million in services, respectively. The Company includes in its non-recurring revenue backlog all fees specified in contracts which have been executed by the Company to the extent that the Company contemplates recognition of the related revenue within one year. There can be no assurance that the contracts included in non-recurring revenue backlog will actually generate the specified revenues or that the actual revenues will be generated within the one year period.

As of March 31, 1998 and 1997, the Company had recurring revenue backlog of $103.4 million and $79.0 million, respectively. The Company defines recurring revenue backlog to be all monthly license fees, maintenance fees and facilities management fees specified in contracts which have been executed by the Company and its customers to the extent that the Company contemplates recognition of the related revenue within one year. There can be no assurance, however, that contracts included in recurring revenue backlog will actually generate the specified revenues.

## Liquidity and Capital Resources

As of March 31, 1998, the Company had working capital of $73.2 million which includes cash and cash equivalents of $49.4 million. The Company has a $10 million bank line of credit of which there are no borrowings outstanding. The bank line of credit expires on June 30, 1998.

During the six months ended March 31, 1998, the Company's cash flow from operations amounted to $12.0 million and cash used in investing activities amounted to $9.9 million. Of the $9.9 million of cash used in investing activities, $1.7 million consisted of advances to Insession under promissory notes and $2.5 million consisted of advances to USPI under a line of credit.

In the normal course of business, the Company evaluates potential acquisitions of complementary businesses, products or technologies. In fiscal year 1997, the Company acquired 100% of RVS and OSSI in exhange for 1,615,383 and 210,000 shares, respectively, of the Company's Class A Common Stock. In February 1998 the Company acquired 100% of Coyote in exchange for 26,400 shares of the Company's Class A Common Stock.

In April 1998, the Company acquired 2.5 million shares of Nestor Common Stock for $5.0 million. The Company also received warrants to purchase an additional 2.5 million shares of Nestor Common Stock for an exercise price of $3 per share. In May 1998 the Company acquired 100% of Edgeware in exchange for 143,436 shares of the Company's Class A Common Stock. On or about May 28, 1998 the Company is scheduled to close on the acquisition of 100% of IntraNet in exchange for approximately 1,225,000 shares of the Company's Class A Common Stock. The IntraNet transaction is subject to certain conditions including approval from IntraNet shareholders.

Management believes that the Company's working capital, cash flow generated from operations and borrowing capacity are sufficient to meet the Company's working capital requirements for the foreseeable future.

## Year 2000

Management has initiated a Company-wide program to prepare the Company's computer systems and applications as well as the Company's product offerings for the year 2000. The Company expects to incur internal staff costs as well as consulting and other expenses related to system enhancements and product modifications for the year 2000. The majority of the Company's product offerings are currently year 2000 compliant. The total cost to be incurred by the Company for all year 2000 related projects is not expected to have a material impact on the future results of operations. However, there could be a material adverse effect on the results of operations of the Company if the system enhancements and product modifications for the year 2000 prove not to be effective.

TRANSACTION SYSTEMS ARCHITECTS, INC.
PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The Registrant's annual meeting of stockholders was held on February 24, 1998. Each matter voted upon at such meeting and the number of shares cast for, against or withheld, and abstained are as follows:

1. Election of Directors

| | For | Withheld |
|---|---|---|
| William E. Fisher | 23,589,060 | 41,101 |
| David C. Russell | 23,581,350 | 48,811 |
| Promod Haque | 23,588,990 | 41,171 |
| Charles E. Noell, III | 23,588,934 | 41,227 |
| Jim D. Kever | 23,588,598 | 41,563 |
| Larry G. Fendley | 23,588,694 | 41,467 |

2. Ratification of Appointment of Arthur Andersen LLP as Independent Auditors for 1997

For:23,535,217 Against:5,476 Abstain:89,468 Broker Non-vote: 0

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

27.00 Financial Data Schedule

(b) Reports on Form 8-K

None

SIGNATURES

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

Dated: May 13, 1998

TRANSACTION SYSTEMS ARCHITECTS, INC
(Registrant)

/s/ Dwight G. Hanson
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Dwight G. Hanson
Vice President of Finance
(Principal Accounting Officer)

TRANSACTION SYSTEMS ARCHITECTS, INC.

INDEX TO EXHIBITS

| Exhibit Number | Description |
| --- | --- |
| 27.00 | Financial Data Schedule |

5
1000

6-MOS
SEP-30-1998
OCT-01-1997
MAR-31-1998
49,370
0
44,675
0
0
125,206
35,555
18,549
177,300
51,997
0
0
0
142
122,822
177,300
125,258
125,258
42,275
102,179
(1,260)
0
98
24,241
9,147
15,094
0
0
0
15,094
.54
.54