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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, 2002

Commission File Number 0-25346

TRANSACTION SYSTEMS ARCHITECTS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**47-0772104** (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)

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

Yes _X_ No __

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes ___ No _X_

As of January 31, 2003, there were 35,458,809 shares of the registrant's Class A Common Stock, par value $.005 per share, outstanding (excluding 1,476,145 shares held as Treasury Stock, and including 7,680 options to purchase shares of the registrant's Class A Common Stock at an exercise price of one cent per share).

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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TRANSACTION SYSTEMS ARCHITECTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	December 31, 2002	September 30, 2002
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 88,122	$ 87,894
Marketable securities	3,187	3,757
Billed receivables, net	50,771	35,755
Accrued receivables	10,613	13,132
Deferred income taxes, net	18,211	17,554
Other	4,803	4,560
Total current assets	175,707	162,652
Property and equipment, net	10,981	11,597
Software, net	4,878	5,609
Goodwill, net	56,194	55,947
Deferred income taxes, net	26,174	27,546
Other	2,874	3,168
Total assets	$ 276,808	$ 266,519
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt - financing agreements	$ 16,250	$ 18,444
Accounts payable	7,214	7,348
Accrued employee compensation	7,717	7,583
Accrued liabilities	11,556	11,494
Income taxes payable	5,135	7,847
Deferred revenue	82,225	59,598
Other	823	872
Total current liabilities	130,920	113,186
Debt - financing agreements	22,423	24,866
Deferred revenue	16,623	23,860
Other	1,561	1,749
Total liabilities	171,527	163,661
Contingencies (Note 11)		
Stockholders' equity:		
Class A Common Stock, $.005 par value; 50,000,000 shares authorized; 36,928,954 and 36,887,805 shares issued at December 31, 2002 and September 30, 2002, respectively	183	183
Treasury stock, at cost, 1,476,145 shares	(35,258)	(35,258)
Additional paid-in capital	228,744	228,465
Accumulated deficit	(80,932)	(83,927)
Accumulated other comprehensive loss, net	(7,456)	(6,605)
Total stockholders' equity	105,281	102,858
Total liabilities and stockholders' equity	$ 276,808	$ 266,519

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

TRANSACTION SYSTEMS ARCHITECTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

	Three Months Ended December 31,	
	2002	**2001**
		(Restated)
Revenues:		
Software license fees	$ 31,330	$ 40,831
Maintenance fees	18,604	18,782
Services	12,555	13,624
Total revenues	62,489	73,237
Expenses:		
Cost of software license fees	5,939	9,218
Cost of maintenance and services	14,808	16,038
Research and development	7,950	9,049
Selling and marketing	13,736	14,257
General and administrative	12,583	12,896
Total expenses	55,016	61,458
Operating income	7,473	11,779
Other income (expense):		
Interest income	310	311
Interest expense	(956)	(1,619)
Other, net	(1,139)	(4,471)
Total other income (expense)	(1,785)	(5,779)
Income before income taxes	5,688	6,000
Income tax provision	(2,693)	(3,583)
Net income	$ 2,995	$ 2,417
Earnings per share information:		
Weighted average shares outstanding:		
Basic	35,437	35,255
Diluted	35,550	35,461
Earnings per share:		
Basic	$ 0.08	$ 0.07
Diluted	$ 0.08	$ 0.07

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

TRANSACTION SYSTEMS ARCHITECTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	Three Months Ended December 31, 2002	Three Months Ended December 31, 2001 (Restated)
Cash flows from operating activities:		
Net income	$ 2,995	$ 2,417
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,312	1,671
Amortization	1,265	3,290
Impairments of marketable equity securities	—	3,073
Changes in operating assets and liabilities:		
Billed and accrued receivables, net	(12,497)	5,187
Other current and noncurrent assets	(1,943)	(7,247)
Accounts payable	(134)	(4,018)
Deferred revenue	15,390	795
Income taxes	(1,997)	12,932
Other current and noncurrent liabilities	207	(1,500)
Net cash provided by operating activities	4,598	16,600
Cash flows from investing activities:		
Purchases of property and equipment, net	(591)	(2,334)
Purchases of software	(32)	(590)
Other, net	174	26
Net cash used in investing activities	(449)	(2,898)
Cash flows from financing activities:		
Proceeds from issuance of Class A Common Stock	273	302
Proceeds from exercise of stock options	6	21
Repayments on line of credit	—	(7,000)
Proceeds from debt - financing agreements	—	5,777
Payments on debt - financing agreements	(4,637)	(8,685)
Other, net	(248)	744
Net cash used in financing activities	(4,606)	(8,841)
Effect of exchange rate fluctuations on cash	685	(370)
Net increase in cash and cash equivalents	228	4,491
Cash and cash equivalents, beginning of period	87,894	32,004
Cash and cash equivalents, end of period	$ 88,122	$ 36,495

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

TRANSACTION SYSTEMS ARCHITECTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Nature of Business

Transaction Systems Architects, Inc., a Delaware corporation, and its subsidiaries (collectively referred to as "TSA" or the "Company"), develop, market, install and support 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. These products and services are used principally by financial institutions, retailers and e-payment processors, both in domestic and international markets.

Consolidated Financial Statements

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The consolidated financial statements at December 31, 2002, and for the three months ended December 31, 2002 and 2001, 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. Certain amounts previously reported have been reclassified to conform to current presentation.

The consolidated financial statements contained herein 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, 2002. The results of operations for the three months ended December 31, 2002 are not necessarily indicative of the results that may be achieved for the entire fiscal year ending September 30, 2003.

During fiscal 2002, the Company identified transactions for which accounting adjustments were necessary, which resulted in restatements of the Company's consolidated financial statements, including previously reported amounts for the three months ended December 31, 2001 (see Note 10 for further discussion).

Use of Estimates in Preparation of Consolidated Financial Statements

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.

Revenue Recognition, Accrued Receivables and Deferred Revenue

Software License Fees. The Company recognizes software license fee revenue in accordance with American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, "Software Revenue Recognition," SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions," and Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements." For software license arrangements for which services rendered are not considered essential to the functionality of the software, the Company recognizes revenue upon delivery, provided (1) there is persuasive evidence of

an arrangement, (2) collection of the fee is considered probable and (3) the fee is fixed or determinable. In most arrangements, vendor-specific objective evidence ("VSOE") of fair value does not exist for the license element; therefore, the Company uses the residual method under SOP 98-9 to determine the amount of revenue to be allocated to the license element. Under SOP 98-9, the fair value of all undelivered elements, such as postcontract customer support (maintenance or "PCS") or other products or services, is deferred and subsequently recognized as the products are delivered or the services are performed, with the residual difference between the total arrangement fee and revenues allocated to undelivered elements being allocated to the delivered element.

When a software license arrangement includes services to provide significant production, modification, or customization of software, those services are not separable from the software and are accounted for in accordance with Accounting Research Bulletin ("ARB") No. 45, "Long-Term Construction-Type Contracts," and the relevant guidance provided by SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Accounting for services delivered over time under ARB No. 45 and SOP 81-1 is referred to as contract accounting. Under contract accounting, the Company uses the percentage-of-completion method. Under the percentage-of-completion method, the Company records revenue for the software license fee and services over the development and implementation period, with the percentage of completion measured by the percentage of labor hours incurred to-date to estimated total labor hours for each contract. For those contracts subject to percentage-of-completion contract accounting, estimates of total revenue under the contract, which are used in current percentage-complete computations, exclude amounts due under extended payment terms. In certain cases, the Company provides its customers with extended terms where payment is deferred beyond when the services are rendered. Because the Company is unable to demonstrate a history of enforcing payment terms under such arrangements without granting concessions, the Company excludes revenues due on extended payment terms from its current percentage of completion computation because it cannot be presumed that those fees are fixed or determinable.

For software license arrangements in which a significant portion of the fee is due more than 12 months after delivery, the software license fee is deemed not to be fixed or determinable. For software license arrangements in which the fee is not considered fixed or determinable, the software license fee is recognized as revenue as payments become due and payable, if all other conditions to revenue recognition have been met. For software license arrangements in which the Company has concluded that collection of the fees is not probable, revenue is recognized as cash is collected. In making the determination of collectibility, the Company considers the creditworthiness of the customer, economic conditions in the customer's industry and geographic location, and general economic conditions.

For software license arrangements in which the Company's ability to enforce payment terms depends on customer acceptance provisions, software license fee revenue is recognized upon the earlier of the point at which (1) the customer accepts the software products or (2) the acceptance provisions lapse.

For software license arrangements in which VSOE of the fair value of undelivered elements does not exist to allocate the total fee to all elements of the arrangement, revenue is deferred until the earlier of the point at which (1) such sufficient VSOE of the fair value of undelivered elements does exist or (2) all elements of the arrangement have been delivered.

Gross versus Net. For software license arrangements in which the Company acts as a sales agent for another company's products, revenues are recorded on a net basis. These include arrangements in which the Company does not take title to the products, is not responsible for providing the product or service, earns a fixed commission, and assumes credit risk only to the extent of its commission. For

software license arrangements in which the Company acts as a distributor of another company's product, and in certain circumstances, modifies or enhances the product, revenues are recorded on a gross basis. These include arrangements in which the Company takes title to the products and is responsible for providing the product or service.

Subscriptions and Usage Fees. For software license arrangements in which the Company permits the customer to vary their software mix, including the right to receive unspecified future software products during the software license term, the Company recognizes revenue ratably over the license term, provided all other revenue recognition criteria have been met. For software license arrangements in which the customer is charged software license fees based on usage of the product, the Company recognizes revenue as usage occurs over the term of the licenses, provided all other revenue recognition criteria have been met.

Maintenance Fees. Revenues for PCS are recognized ratably over the maintenance term specified in the contract. In arrangements where a multi-year time-based software license has a duration of one year or less or the initial PCS term is relatively long (i.e. greater than fifty percent) compared to the term of the software license, the Company recognizes revenue for the entire arrangement ratably over the PCS term as VSOE of fair value cannot be established.

Services. Revenues from arrangements to provide professional services on a time and materials basis are recognized as the related services are performed. Revenues from professional services provided on a fixed fee basis are recognized using the percentage-of-completion method.

Non-monetary Transactions. Non-monetary transactions are accounted for in accordance with Accounting Principles Board ("APB") Opinion No. 29, "Accounting for Non-monetary Transactions," which requires that the transfer or distribution of a non-monetary asset or liability generally be based on the fair value of the asset or liability that is received or surrendered, whichever is more clearly evident. In those cases where fair value of the assets exchanged is not readily determinable, the exchange is recorded at the historical cost of the asset surrendered.

Accrued Receivables. Accrued receivables represent amounts to be billed in the near future (less than 12 months).

Deferred Revenue. Deferred revenue represents (1) payments received from customers for software licenses, maintenance and/or services in advance of providing the product or performing services, (2) amounts deferred whereby VSOE does not exist, or (3) amounts deferred if other conditions to revenue recognition have not been met.

Debt - Financing Agreements

The Company periodically sells rights to future payment streams under software license arrangements with extended payment terms. In accordance with the Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force ("EITF") 88-18, "Sales of Future Revenues," the Company records the proceeds received from these arrangements as debt and reduces the debt principal as payments are made. Interest on the debt accrues monthly and is computed using the effective interest method.

Recent Accounting Pronouncements

In October 2002, the Company adopted EITF 01-14, "Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred," which requires (1) that reimbursements

received for out-of-pocket expenses be classified as revenue, rather than as a reduction of expenses, and (2) upon adoption, comparative financial statements for prior periods be reclassified to comply with the guidance of EITF 01-14. As a result of adopting EITF 01-14, results for the three months ended December 31, 2001 were restated to increase revenues and increase operating expenses by $486,000. The adoption of EITF 01-14 had no effect on net income.

In June 2002, the FASB released Statement of Financial Accounting Standard ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting and reporting for costs associated with exit or disposal activities, and nullifies EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." SFAS No. 146 addresses involuntary one-time employee termination benefits, costs to terminate a contract that is not a capital lease, and other associated exit costs. Existing accounting guidelines require companies to recognize a liability when management commits itself or announces plans to exit or dispose of an activity. SFAS No. 146 will prohibit companies from recognizing an exit or disposal liability until the liability has been incurred and can be measured at fair value. The Company is required to be in conformity with the provisions of SFAS No. 146 for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 is not expected to have a material effect on the Company's financial position or results of operations. The company will apply the provisions of SFAS No. 146 to exit or disposal activities initiated after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for the Company's fiscal year ending September 30, 2003, with disclosure provisions for interim periods beginning after December 15, 2002. The Company does not expect to voluntarily adopt the fair value based method of SFAS No. 123 and, therefore, does not expect the measurement provisions of SFAS No. 148 to affect the Company's financial position or results of operations. The Company will include disclosures required by SFAS No. 148 in future interim financial statements, beginning with the quarterly period ending March 31, 2003.

2. Corporate Restructuring Charges and Asset Impairment Losses

During fiscal 2001, the Company closed or significantly reduced the size of certain product development organizations and geographic sales offices, resulting in restructuring charges and asset impairment losses. The following table shows activity related to these exit activities since September 30, 2002 (in thousands):

	Lease Obligations
Balance, September 30, 2002	$ 1,047
Amounts paid year-to-date during fiscal 2003	(84)
Balance, December 31, 2002	$ 963

The liability for lease obligations relates to the abandonment or reduction of office facilities with lease terms ending on various dates through March 2005, net of expected third-party purchases or

subleases, and an estimated lease termination loss for the corporate aircraft. The Company continues to seek subleases for certain of the properties as well as an exit to the corporate aircraft lease. The final settlement of these obligations may result in adjustments to these liabilities.

3. Line of Credit Agreement

The Company has a $15.0 million bank line of credit agreement with a United States bank that expires in June 2003. This credit agreement is secured by certain trade receivables and 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. As a result of the restatement of its consolidated financial statements during fiscal 2002, the Company is not in compliance with the debt covenants as of December 31, 2002. Interest on this credit facility, which is payable monthly, accrues at an annual rate, selected by the Company, equal to either the bank's prime rate or the LIBOR rate plus 2%. The Company had no line of credit borrowings outstanding on this credit facility during the three months ended December 31, 2002. During the three months ended December 31, 2001, the Company recorded interest expense and related fees of $128,000 related to its line of credit facilities.

4. Goodwill and Software

Changes to the carrying amount of goodwill during the three months ended December 31, 2002 resulted only from foreign currency translation adjustments.

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

	Dec. 31, 2002	Sept. 30, 2002
Internally-developed software	$ 15,425	$ 15,372
Purchased software	43,527	43,312
	58,952	58,684
Less: accumulated amortization	(54,074)	(53,075)
Software, net	$ 4,878	$ 5,609

Amortization of software is computed using the greater of the ratio of current revenues to total estimated revenues expected to be derived from the software or the straight-line method over an estimated useful life of three years. Software amortization expense recorded in the three months ended December 31, 2002 was $0.8 million. Based on capitalized software at December 31, 2002, and assuming no impairment of these software assets, estimated amortization expense for the remainder of fiscal 2003 and in succeeding fiscal years is as follows (in thousands):

2003	$ 2,389
2004	1,943
2005	546
Thereafter	—

5. Debt—Financing Agreements

During the three months ended December 31, 2001, the Company sold the rights to future payment streams under software license arrangements with extended payment terms to financial institutions and received cash of approximately $5.8 million. The Company did not sell any rights to future payment streams under software license arrangements with extended payment terms during the three months ended December 31, 2002. The amount of the proceeds received from the financing arrangements is typically determined by applying a discount rate to the gross future payments to be received from the customer. The discount rates used to determine the proceeds during the three months ended December 31, 2001 ranged from 6.8% to 7.75%. During the three months ended December 31, 2002 and 2001, the Company recorded interest expense of $0.9 million and $1.4 million, respectively, related to debt—financing arrangements.

6. Common Stock and Earnings Per Share

Exchangeable shares and options to purchase shares of Class A Common Stock (at an exercise price of one cent per share) 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 December 31, 2002 and September 30, 2002 consolidated balance sheets. Exchangeable shares and MDL options included in Class A Common Stock totaled 7,680 options as of December 31, 2002, and 73,909 shares and 11,010 options as of September 30, 2002. There were no outstanding exchangeable shares at December 31, 2002.

Earnings per share ("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 (the numerator), by the weighted average number of common shares outstanding, adjusted for the dilutive effect of outstanding dilutive securities (the denominator). Exchangeable shares and options received by shareholders of MDL that have not yet been converted into TSA Class A Common Stock are included in common shares outstanding for EPS computations. The differences between the basic and diluted EPS denominators for the three months ended December 31, 2002 and 2001, which amounted to approximately 110,000 and 206,000 shares, respectively, were due to the dilutive effect of the Company's outstanding stock options using the treasury stock method. Weighted average shares from stock options of 5,213,000 and 1,606,000 were excluded from the computation of diluted EPS for the three months ended December 31, 2002 and 2001, respectively, because the exercise prices of the stock options were greater than the average market price of the Company's common shares.

7. Comprehensive Income/Loss

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

	Three Months Ended December 31,	
	2002	2001
		(Restated)
Net income	$ 2,995	$ 2,417
Other comprehensive income (loss):		
Foreign currency translation adjustments	(455)	693
Change in unrealized loss on investments	(396)	2,463
Comprehensive income	$ 2,144	$ 5,573

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

	Foreign Currency Translation Adjustments	Unrealized Investment Holding Loss	Accumulated Other Comprehensive Income (Loss)
Balance, September 30, 2002	$ (6,162)	$ (443)	$ (6,605)
Fiscal 2003 year-to-date activity	(455)	(396)	(851)
Balance, December 31, 2002	$ (6,617)	$ (839)	$ (7,456)

8. Income Taxes

The effective tax rate for the first quarter of fiscal 2003 was approximately 47.3% as compared to 59.7% for the same period of fiscal 2002. The effective tax rate for the first quarter of fiscal 2003 was primarily impacted by non-recognition of tax benefits for operating losses in certain foreign locations and recognition of a valuation allowance for foreign tax credits. The effective tax rate for the first quarter of fiscal 2002 was primarily impacted by non-recognition of tax benefits for operating losses in certain foreign locations, foreign tax rate differentials and gain on sale of subsidiary.

9. Segment Information

The Company has three operating segments, referred to as business units. These three business units are ACI Worldwide, Insession Technologies and IntraNet. 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 point-of-sale devices, wireless devices and the Internet; control fraud and money laundering; authorize checks; establish frequent shopper programs; automate transaction settlement, card management and claims processing; and issue and manage multi-functional applications on smart cards. 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 products offer high value payments processing, bulk payments processing, global messaging 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 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, 2002 and 2001. The following are revenues and operating income for these business units for the periods indicated (in thousands):

	Three Months Ended December 31,	
	2002	2001
		(Restated)
Revenues:		
ACI Worldwide	$ 45,606	$ 55,325

Insession Technologies	7,000	8,096
IntraNet	9,883	9,816
	$ 62,489	$ 73,237
Operating income:		
ACI Worldwide	$ 4,910	$ 9,435
Insession Technologies	849	931
IntraNet	1,714	1,413
	$ 7,473	$ 11,779

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,	
	2002	2001
		(Restated)
Revenues:		
United States	$ 29,875	$ 33,259
Other Americas	7,467	9,803
Total Americas	37,342	43,062
EMEA	16,889	22,708
Asia/Pacific	8,258	7,467
	$ 62,489	$ 73,237
	Dec. 31, 2002	Sept. 30, 2002
Long-lived assets:		
United States	$ 57,332	$ 57,616
Other Americas	6,095	6,098
Total Americas	63,427	63,714
EMEA	10,598	11,805
Asia/Pacific	902	802
	$ 74,927	$ 76,321

10. Restatement of Consolidated Financial Results

During fiscal 2002, in the course of the Company's review of its consolidated financial statements, the Company identified transactions for which accounting adjustments were necessary, which resulted in restatements of the Company's consolidated financial statements for fiscal 2001 and 2000, as well as restatements of previously reported quarterly results for the first three quarters of fiscal 2002 and each quarter during fiscal 2001 and 2000. The following is a description of the restatement adjustment categories. The dollar effect of adjustments within each category for the three months ended December 31, 2001 is shown below under the heading *Presentation of Restated Consolidated Financial Information*.

Revenue Recognition

Fixed or Determinable. In fiscal 1999, the Company adopted SOP 97-2, which requires that a software vendor's fee be fixed or determinable before it can recognize the license fee revenue upon shipment of the software. SOP 97-2 states that if payment of a significant portion of the software license fee is not due until after expiration of the license or more than twelve months after delivery, the license fee should be presumed not to be fixed or determinable. However, SOP 97-2 provides that the software vendor can overcome the presumption that the software license fees are not fixed or determinable if the vendor has a standard business practice of using long-term or installment contracts and has a history of

successfully collecting the software license fees under the original payment terms of the software license arrangement without making concessions.

Previously, the Company concluded that for certain BASE24 and ICE software arrangements where the customer is contractually committed to make license payments that extend beyond twelve months, the fixed or determinable presumption had been overcome and software license fee revenue should be recognized upon delivery of the software, assuming that all other revenue recognition criteria had been met. Software license fee revenues recognized under these arrangements were referred to in the Company's previous filings with the SEC as "Recognized-Up-Front MLFs ("RUFs")." Software license fee revenues previously recognized as RUFs totaled approximately $4.0 million during the three months ended December 31, 2001.

Subsequently, it was determined that upon adoption of SOP 97-2, the Company lacked a history of successfully collecting software license fees under the original terms of the software license arrangement without making concessions, which would have enabled it to recognize software license fee revenue upon delivery of the software products. In addition, certain contracts previously accounted for under the RUF policy contained cancellation clauses and MLFs that vary with customer usage (i.e., usage-based fees). Therefore, license fees for these arrangements were also not fixed and determinable at the outset of the arrangement. As a result, the Company's consolidated financial statements have been restated to recognize revenues under software license arrangements with extended payment terms over the term of the underlying license arrangements, as payments become due and payable rather than up-front (or ratably for subscription arrangements).

Under the Company's previous accounting, the license fee revenue recognized-up-front was generally the net present value of the monthly license fee ("MLF") payments. The difference between the payments to be received from the customer and the amount of license fee revenue recognized was accounted for as interest income using the effective interest rate method. The revised treatment for these arrangements has resulted in a reduction in interest income for the amounts previously recorded under these arrangements. In addition, the Company previously sold the MLF payment stream for certain of these previously recognized software license arrangements. The previous treatment resulted in the derecognition of the transferred asset accounts receivable following the sale of the MLF receivable. The revised treatment for these arrangements has resulted in the recording of periodic interest expense for the difference between the proceeds received under the factoring arrangements and the license fee revenues recognized under the arrangements. Due to the Company's continuing involvement in the maintenance services, the cash proceeds have been recorded as debt - financing agreements.

VSOE. The Company's software license arrangements typically include the licensing of software and providing of PCS. The bundled software license arrangements generally have a separate stated term for the software license and the PCS. The software license term generally ranges from 12 to 60 months, although some arrangements have a software license term extending beyond 60 months. The PCS term is generally 12 to 24 months, although certain of these arrangements have a PCS term that is the same as the software license term.

SOP 97-2 requires the seller of software that includes PCS to establish VSOE of fair value of the undelivered element of the contract in order to account separately for the PCS revenue. For certain of the Company's products, VSOE of the fair value of PCS is determined by a consistent pricing of PCS and PCS renewals as a percentage of the software license fees. In other products, the Company determines VSOE by reference to contractual renewals, when the renewal terms are substantive. In those cases where VSOE of the fair value of PCS is determined by reference to contractual renewals, the Company considers factors such as whether the period of the initial PCS term is relatively long when compared to

the term of the software license or whether the PCS renewal rate is significantly below the Company's normal pricing practices. In arrangements where a one-year term license is bundled with PCS or the initial PCS term is relatively long (i.e., greater than fifty percent) compared to the license term, the Company has determined that it does not have VSOE of the PCS element from renewal terms, and license fee and PCS revenues have been restated and recognized ratably over the PCS period.

Customer Acceptance. Certain of the Company's software arrangements (primarily those in the Asia/Pacific region) include payment terms that are enforceable only upon the passage of time or customer acceptance. Historically, for most of the software license arrangements that contain customer acceptance provisions, the Company recognized software license fee revenue upon delivery of the software products, assuming that all other revenue recognition criteria had been met. The Company's consolidated financial statements have been restated to recognize revenues under software license arrangements with customer acceptance provisions upon the earlier of the point at which (1) the customer accepts the software products or (2) the acceptance provisions lapse. For those software license arrangements in which acceptance did not ultimately occur, this restated treatment resulted in a reduction in previously recognized revenues.

Collectibility. It has been determined that certain software license revenue was recognized for which collection was not reasonably assured. The Company's consolidated financial statements have been restated to recognize revenue from these arrangements as cash was received. For those software license arrangements in which collectibility was not probable at the onset of the arrangement and for which the Company received no cash or only a portion of the fees, this restated treatment resulted in a reduction of previously recognized revenues and bad debts expense.

Contract Accounting. SOP 97-2 requires that an arrangement to deliver software that requires significant production, modification, or customization of software should be accounted for in accordance with ARB No. 45 and the relevant guidance provided by SOP 81-1. This guidance is often referred to as contract accounting. The Company has certain software license arrangements, which are subject to contract accounting. Although payment terms are generally spread out over time in contract accounting, the concepts and risks of extended payment terms also apply to arrangements accounted for under contract accounting. The Company has determined that certain of its contract accounting arrangements contain extended payment terms and therefore the associated fees are not considered fixed or determinable. In addition, the Company previously recognized revenue up-front on certain contracts that required significant production, modification, or customization. The Company's consolidated financial statements have been restated to (1) revise the estimated total revenue under the contract which was used in the current percentage complete computations to exclude amounts due under extended payment terms, and (2) recognize revenue based on percentage completion estimated for those contracts in which revenue was previously recorded when the software was delivered even though significant customization of the delivered software was required.

Subscription Accounting. The Company has certain software license arrangements in which the customer has the ability to receive additional unspecified products over a limited period. Previously the Company recognized software license fee revenue upon delivery of the initial products specified in the software license arrangement. SOP 97-2 states that the software license revenue under these arrangements should be recognized ratably over the term of the arrangement, beginning with the delivery of the first product. One of the software license arrangements identified is Digital Courier Technologies, Inc. ("DCTI"). The Company's consolidated financial statements have been restated to recognize revenue from these arrangements ratably over the term of the arrangement.

Multiple-Element Arrangements. The Company has certain multiple-product arrangements of which only a portion of the software products are delivered to the customer. Previously, the Company recognized license fee revenue for the portion of the total fee that related to the delivered products as determined by stated contract values. SOP 97-2, as amended by SOP 98-9, states that for arrangements that involve multiple elements either (1) the entire fee from the arrangement must be allocated to each of the individual elements, based on each element's VSOE of fair value, or (2) VSOE of the fair value must be established for the undelivered elements with the entire discount allocated to the delivered elements. In addition, the Company occasionally enters into more than one contract with a single customer within a short period of time. Certain of these arrangements are so closely related that they are, in substance, parts of a single arrangement. If VSOE of fair value does not exist, all revenue from the arrangement must be deferred until the earlier of when (1) such evidence does exist for each element, (2) all the elements have been delivered, or (3) the evidence of fair value exists for the undelivered elements. For certain software license arrangements in which only a portion of the products are delivered, it has been determined that VSOE of fair value for the undelivered products does not exist. The Company's consolidated financial statements have been restated for these arrangements to defer recognition of revenue for the entire arrangement until all the products in the arrangement have been delivered or at such time that it has been determined that the additional products will not be delivered, as evidenced by customer acknowledgement of credits due, if any.

Delivery/Term Commencement. The Company has identified certain arrangements in which delivery of the software products and/or commencement of the license term had not occurred prior to revenue being recognized. The Company has restated its consolidated financial statements for these arrangements to recognize revenue upon delivery to the customer and commencement of the license term.

Gross versus Net, Distributor Arrangements. The Company has inconsistently classified revenues generated from arrangements in which it has acted as a sales agent for another company's product. The Company has restated its revenues related to arrangements previously reported gross. This has resulted in the reduction of previously reported costs of software licenses in which the Company does not take title to the products, is not responsible for providing the product or service, earns a fixed commission, and assumes credit risk only to the extent of its commissions.

Operating Expenses and Other

Purchase Accounting. The Company has adjusted the purchase accounting for the acquisitions of Insession Inc., SDM International, Inc. ("SDM") and MDL, which were made in fiscal 2001, 2000 and 1999, respectively. The adjustments relate to the determination of the fair market value of the TSA Class A Common Stock issued to the shareholders of SDM and MDL and the determination of the fair value of deferred revenue of Insession, Inc. These adjustments resulted in a net increase to the amount of purchase price allocated to goodwill. The Company based the valuation of the SDM and MDL acquisitions on the fair market value of the TSA Class A Common Stock given as consideration for the acquisitions. The acquisition of SDM was valued based upon the Company's stock price on the third day subsequent to the announcement of the transaction. The acquisition of MDL was valued based on an average of the Company's stock price for one day prior to and four days after the announcement of the transaction. The Company has re-measured the purchase price of each acquisition based on the average closing sale price of a share of TSA Class A Common Stock using a period beginning two days before and ending two days after the date of the announcement. Additionally, the deferred revenue of Insession Inc. has been reduced to fair market value resulting in a reduction in previously recorded goodwill and previously recorded revenues.

In addition, SFAS No. 109, "Accounting for Income Taxes," requires the recognition of deferred tax liabilities for the tax consequences of differences between the assigned values of identifiable intangible assets acquired in a business combination and the tax basis of such assets. Previously, the Company did not record the deferred tax liability for certain identifiable intangible assets acquired in the Insession Inc. and MDL transactions. The Company's consolidated financial statements have been restated to recognize the deferred tax liabilities for these identifiable intangible assets. This treatment results in an increase in the allocation of purchase price to goodwill for these transactions.

These purchase accounting adjustments resulted in increases to goodwill, goodwill amortization expense for all periods prior to the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," on October 1, 2001, and the subsequent impairment losses recorded for those acquisitions.

Capitalized Software. Regency Systems, Inc. ("Regency"), a wholly-owned subsidiary of the Company until February 2002, previously capitalized costs associated with the development of its Internet banking product. Regency began amortizing the capitalized software in the second quarter of fiscal 2001. Subsequent to the Internet banking product being made generally available for sale, Regency continued to capitalize software development costs that should have been expensed. Therefore, previously capitalized software development costs have been charged to research and development costs, and software amortization expense has been reversed. In addition, the Company was previously capitalizing costs associated with the development of the IntraNet CO-ach software product. It has been determined that these software costs should not have been capitalized as the underlying product was also part of an on-going international customer project under which the Company was recognizing revenue using percentage-of-completion contract accounting. Therefore, previously capitalized software development costs have been reclassified to cost of software license fees.

Bad Debts. The allowance for doubtful accounts and bad debts expense has been reduced for the various revisions the Company has made to its revenue recognition policies (described above). The changes to revenue recognition have generally resulted in the deferral or elimination of previously recognized revenue and accounts receivable. The Company has restated its allowance for doubtful accounts and bad debts expense to take into account changes to revenue recognition for those accounts for which revenue was previously recognized and subsequently written off as bad debts expense.

Accrued Liabilities. Certain accounting differences were discovered with respect to the recorded amount of accrued liabilities when compared to amounts actually paid out related to these accrued liabilities, resulting in a reduction in accrued liabilities in fiscal 2002 and 2001, and an increase in accrued liabilities in fiscal 2000 and 1999. Such differences included adjustments for commission liabilities, variable compensation and other accrued expenses.

Facilities Management Set-up Costs. In fiscal 1999, the Company capitalized set-up costs associated with a facilities management arrangement. These set-up costs were being amortized over the three-year term of the arrangement although the Company had previously recognized up-front fees related to initial installation. In the third quarter of fiscal 2002, the Company wrote-off the unamortized balance of the previously capitalized set-up costs. It was subsequently determined that these costs should have been expensed as incurred in the absence of deferral of the installation revenues. Therefore, previously capitalized set-up costs have been reclassified to operating expenses, and amortization expense has been reduced. In addition, the previously recorded write-off of the unamortized balance has been reversed.

Distributor Commissions. Certain of the revenue adjustments described previously resulted in changes to the amount of royalty expense owed to the owners of third-party products.

Corporate Restructuring. The Company has determined that certain previously recognized restructuring liabilities associated with the Company's fiscal 2001 restructuring plan did not meet the requirements for liability recognition at the commitment date. In certain cases, the original plan of workforce reductions was not in sufficient detail to ensure that significant changes to the plan were unlikely before completion and, in other cases, the requirements for notifying employees of the workforce reductions did not occur. The liabilities for restructuring activities also included other human resource, bad debt, warranty and operating expenses that either benefited future periods or were unrelated to exit activities in the restructuring plan. As a result, the Company has restated the consolidated financial statements to reduce the fiscal 2001 restructuring charge. Costs unrelated to exit activities under the restructuring plan have been reclassified to recognize the expense as incurred and classified separately from restructuring charges.

The Company also determined that certain previously recognized impairment losses and other charges were unrelated to restructuring and exit plans. Those entries included corrections of previous purchase price allocations for an acquisition, unrecoverable software development costs, and impairments of notes receivable and equity investments. As a result, the Company has reclassified the previously reported impairment losses for items unrelated to exit activities and, where appropriate, corrected the measurement and timing of loss recognition.

Software Impairment. In connection with the restatement, the Company performed an analysis of the carrying value of the MDL software as of September 30, 2001. From this analysis, it was determined recovery of the MDL software was impaired. Consequently, the MDL software was written off to impairment of long-lived assets in the fourth quarter of fiscal 2001 and entries have been made to reduce amortization expense previously recognized.

Interest Income and Interest Expense. As discussed above under the heading *Fixed or Determinable*, certain revenue recognition restatements also resulted in restatements of interest income and interest expense. Proceeds from the factoring of extended payment term license arrangements have been recorded as debt, whereas the Company's previous accounting had resulted in the derecognition of unbilled receivables. Interest income has been reduced as a result of adjustments related to RUF accounting (described above). Interest expense has been increased as a result of the amortization of discounts on proceeds from factored license arrangements classified as debt.

Investments. The Company has licensed its products to certain customers immediately prior to, contemporaneously with, or immediately after it had made an investment in those customers. It was subsequently determined that fair value of the underlying equity investments could not be readily determined. Therefore, these transactions should have been accounted for as non-monetary exchanges in accordance with APB Opinion No. 29. Under APB Opinion No. 29, the exchange of assets when fair value cannot be readily determined is recorded at the historical cost of the asset surrendered. In addition, in certain circumstances it was not clear that the investee/customer could satisfy the cash requirements of the license arrangement absent the cash investment. As a result, the carrying value of certain investments was reduced by the amount of license revenue recognized prior to October 1, 1999 in the restatement of the Company's consolidated financial statements. This restated treatment has resulted in a reduction in previously recognized revenues and, in certain cases reduced previously reported impairment losses for other than temporary declines in the related investments.

In addition, the Company made investments in publicly-traded companies. Previously the Company recorded charges to earnings for the other than temporary declines in market values for these investments. The Company revised the amount of charges to earnings for these other than temporary declines of these investments to adjust the carrying value of the securities to quoted market value on the date of impairment.

Foreign Currency. As a result of the adjustments, the computed amount of transaction gains and losses has changed.

Income Taxes

The tax provision for all periods presented was adjusted for (1) the impact of adjustments described above, (2) a previously recognized tax benefit for the MDL impairment loss which was a permanent difference for accounting purposes, and (3) adjustments to previously reported current income tax expense for the effects of changes in accrued tax reserves for tax exposure items.

Presentation of Restated Consolidated Financial Information

The following table sets forth selected unaudited consolidated quarterly financial data for the Company, showing previously reported amounts (as reclassified pursuant to the adoption of EITF 01-14, as discussed in Note 1), restatement adjustments and restated amounts, for the quarter ended December 31, 2001 (in thousands, except per share amounts):

		Quarter Ended Dec. 31, 2001
		(Unaudited)
Total revenues, as previously reported	$	65,796
Fixed or determinable		6,343
VSOE		648
Customer acceptance		(272)
Collectibility		(341)
Contract accounting		65
Subscription accounting		531
Multiple-element arrangements		520
Delivery/term commencement		(278)
Gross versus net distributor arrangements		(265)
Other		490
Revenue adjustments		7,441

Total revenues, restated	73,237
Total operating expenses, as previously reported	66,557
Purchase accounting	(42)
Capitalized software	(108)
Bad debts	(1,287)
Accrued liabilities	(2,045)
FM set-up costs	(266)
Distributor commissions	(172)
Corporate restructuring	93
Software impairment	(940)

Gross versus net distributor arrangements	(265)
Other	(67)
Operating expense adjustments	(5,099)
Total operating expenses, restated	61,458
Operating income (loss), as previously reported	(761)
Revenue adjustments	7,441
Operating expense adjustments	5,099
Operating income (loss), restated	11,779
Total other income (expense), as previously reported	(3,086)
Interest income	(848)
Interest expense	(1,381)
Investments	(172)
Foreign currency	(29)
Other	(263)
Total other income (expense) adjustments	(2,693)
Total other income (expense), restated	(5,779)
Income (loss) before income taxes, as previously reported	(3,847)
Income (loss) before income taxes, restated	6,000
Income tax benefit (provision), as previously reported	1,047
Income tax benefit (provision), restated	(3,583)
Net income (loss), as previously reported	(28,504)
Net income (loss), restated	2,417
Earnings (loss) per share:	
Basic, as previously reported	(0.81)
Basic, restated	0.07
Diluted, as previously reported	(0.81)
Diluted, restated	0.07

11. Contingencies

Legal Proceedings

Class Action Litigation. Three class action lawsuits have been publicly announced against the Company and certain of its former and present officers and directors on behalf of purchasers of publicly-traded securities of the Company. The Company has not been served with any of the complaints relating to these actions. Based on the two complaints which are publicly available, the Company understands that the plaintiffs allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 thereunder, on the grounds that certain of the Company's Exchange Act reports and press releases contained untrue statements of material facts, or omitted to state facts necessary to make the statements therein not misleading, with regard to the Company's revenues and expenses during the class period. The complaints allege that during the purported class periods, the

Company and the named officers and directors misrepresented the Company's historical financial condition, results of operations and its future prospects, and failed to disclose facts that could have indicated an impending decline in the Company's revenues. The plaintiffs are seeking unspecified damages, interest, fees, costs and rescission. The class periods stated in the two complaints are January 21, 1999 through November 18, 2002 and December 29, 1999 through August 14, 2002.

Derivative Litigation. On January 10, 2003, Samuel Naito filed the suit of "Samuel Naito, Derivatively on behalf of Nominal Defendant Transaction Systems Architects, Inc. v. Roger K. Alexander, Gregory D. Derkacht, Gregory J. Duman, Larry G. Fendley, Jim D. Kever, and Charles E. Noell, III and Transaction Systems Architects, Inc." in the State District Court in Douglas County, Nebraska. The suit is a shareholder derivative action that generally alleges that the named individuals breached their fiduciary duties of loyalty and good faith owed to the Company and its shareholders by causing the Company to conduct its business in an unsafe, imprudent and unlawful manner resulting in damage to the Company. More specifically, the plaintiff alleges that the individual defendants, and particularly the members of the Company's audit committee, failed to implement and maintain an adequate internal accounting control system that would have enabled the Company to discover irregularities in its accounting procedures of certain transactions prior to August 2002, thus violating their fiduciary duties of loyalty and good faith, generally accepted accounting principles and the Company's audit committee charter. The plaintiff seeks to recover an unspecified amount of money damages allegedly sustained by the Company as a result of the individual defendants' breaches of fiduciary duties, as well as the plaintiff's costs and disbursements related to the suit.

On January 24, 2003, Michael Russiello filed the suit of "Michael Russiello, Derivatively on behalf of Nominal Defendant Transaction Systems Architects, Inc. v. Roger K. Alexander, Gregory D. Derkacht, Gregory J. Duman, Larry G. Fendley, Jim D. Kever, and Charles E. Noell, III and Transaction Systems Architects, Inc." in the State District Court in Douglas County, Nebraska. The suit is a shareholder derivative action that generally alleges that the named individuals breached their fiduciary duties of loyalty and good faith owed to the Company and its shareholders by causing the Company to conduct its business in an unsafe, imprudent and unlawful manner resulting in damage to the Company. More specifically, the plaintiff alleges that the individual defendants, and particularly the members of the Company's audit committee, failed to implement and maintain an adequate internal accounting control system that would have enabled the Company to discover irregularities in its accounting procedures of certain transactions prior to August 2002, thus violating their fiduciary duties of loyalty and good faith, generally accepted accounting principles and the Company's audit committee charter. The plaintiff seeks to recover an unspecified amount of money damages allegedly sustained by the Company as a result of the individual defendants' breaches of fiduciary duties, as well as the plaintiff's costs and disbursements related to the suit.

These class action and derivative lawsuits were brought in the United States District Court for the District of Nebraska and the Nebraska District Courts, respectively, and are at preliminary stages. The Company is currently in the process of preparing to respond to the claims made in the lawsuits. The Company intends to defend the foregoing lawsuits vigorously, but, since the lawsuits have only recently been filed, the Company cannot predict the outcome and is not currently able to evaluate the likelihood of success or the range of potential loss, if any, that might be incurred in connection with such actions. However, if the Company were to lose any of these lawsuits or if they were not settled on favorable terms, the judgment or settlement may have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows. The Company has insurance that provides an aggregate coverage of $20.0 million for the period during which the claims were filed, but cannot evaluate at this

time whether such coverage will be available or adequate to cover losses, if any, arising out of these lawsuits.

The Company anticipates that additional suits of this nature may be commenced. The Company will fully analyze these allegations once all of the complaints are received and intends to vigorously defend against them. There is a risk that such litigation could result in substantial costs and divert management attention and resources from its business, which could adversely affect the Company's business.

As a result of the Company's restatement of its prior consolidated financial statements, it is likely that the Company will be subject to inquiry or investigation by governmental authorities, including the Securities and Exchange Commission. The Securities and Exchange Commission has informally contacted the Company about the restatement process, but the Company has not been notified of any formal inquiry or investigation. In the event that the Company is subject to such an inquiry or investigation, the Company will fully cooperate with such inquiry or investigation. There is risk that such an inquiry or investigation could result in substantial costs and divert management attention and resources, which could adversely affect the Company's business.

In addition to the foregoing, from time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. The Company is not currently a party to any such legal proceedings, other than as described above, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on the Company's financial condition or results of operations.

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

Overview

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

Restatement of Consolidated Financial Results

During fiscal 2002, the Company identified transactions for which accounting adjustments were necessary, which resulted in restatements of the Company's consolidated financial statements for fiscal 2001 and 2000, as well as restatements of previously reported quarterly results for the first three quarters of fiscal 2002 and each quarter during fiscal 2001 and 2000. A description of the restatement adjustment categories and the dollar effect of adjustments within each category, for the three months ended December 31, 2001, are shown in Note 10 to the Consolidated Financial Statements.

Business Units

The Company's products and services are currently organized within three operating segments, referred to as business units. These three business units are ACI Worldwide, Insession Technologies and IntraNet. 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 for these business units for the three months ended December 31, 2002 and 2001 (in thousands):

	Three Months Ended December 31,	
	2002	2001
		(Restated)
Revenues:		
ACI Worldwide	$ 45,606	$ 55,325
Insession Technologies	7,000	8,096
IntraNet	9,883	9,816
	$ 62,489	$ 73,237
Operating income:		
ACI Worldwide	$ 4,910	$ 9,435
Insession Technologies	849	931
IntraNet	1,714	1,413
	$ 7,473	$ 11,779

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 believes that recognition of the related revenue will occur 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 believes that recognition of the related revenue will occur within one year.

The following table sets forth the Company's recurring and non-recurring revenue backlog, by business unit, as of December 31, 2002 (in thousands):

	December 31, 2002	
	Recurring	Non-Recurring
ACI Worldwide	$ 121,490	$ 45,557
Insession Technologies	18,936	5,625
IntraNet, Inc.	14,309	23,391
	$ 154,735	$ 74,573

Customers may attempt to renegotiate or terminate contracts due to a number of factors, including mergers, changes in their financial condition, or general changes in economic conditions in the customer's industry or geographic location, or the Company may experience delays in the development or delivery of products or services specified in customer contracts. Accordingly, 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. In evaluating the Company's revenue backlog, the risk factors described below in *Forward-Looking Statements* should be considered.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that the Company make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and other assumptions that are believed to be proper and reasonable under the circumstances. The Company continually evaluates the appropriateness of its estimates and assumptions, including those related to revenue recognition, provision for doubtful accounts, fair value of investments, fair value of goodwill and software, useful lives of intangible and fixed assets, income taxes, and contingencies and litigation, among others. Actual results could differ from those estimates.

The Company believes that there are several accounting policies that are critical to understanding the Company's historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management's judgments and estimates. These critical policies, and the Company's procedures related to these policies, are described in detail below.

Revenue Recognition, Accrued Receivables and Deferred Revenue

Software License Fees. The Company recognizes software license fee revenue in accordance with American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, "Software Revenue Recognition," SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions," and Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements." For software license arrangements for which services rendered are not considered essential to the functionality of the software, the Company recognizes revenue upon delivery, provided (1) there is persuasive evidence of an arrangement, (2) collection of the fee is considered probable and (3) the fee is fixed or determinable. In most arrangements, vendor-specific objective evidence ("VSOE") of fair value does not exist for the license element; therefore, the Company uses the residual method under SOP 98-9 to determine the amount of revenue to be allocated to the license element. Under SOP 98-9, the fair value of all

undelivered elements, such as postcontract customer support (maintenance or "PCS") or other products or services, is deferred and subsequently recognized as the products are delivered or the services are performed, with the residual difference between the total arrangement fee and revenues allocated to undelivered elements being allocated to the delivered element.

When a software license arrangement includes services to provide significant production, modification, or customization of software, those services are not separable from the software and are accounted for in accordance with Accounting Research Bulletin ("ARB") No. 45, "Long-Term Construction-Type Contracts," and the relevant guidance provided by SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Accounting for services delivered over time under ARB No. 45 and SOP 81-1 is referred to as contract accounting. Under contract accounting, the Company uses the percentage-of-completion method. Under the percentage-of-completion method, the Company records revenue for the software license fee and services over the development and implementation period, with the percentage of completion measured by the percentage of labor hours incurred to-date to estimated total labor hours for each contract. For those contracts subject to percentage-of-completion contract accounting, estimates of total revenue under the contract, which are used in current percentage-complete computations, exclude amounts due under extended payment terms. In certain cases, the Company provides its customers with extended terms where payment is deferred beyond when the services are rendered. Because the Company is unable to demonstrate a history of enforcing payment terms under such arrangements without granting concessions, the Company excludes revenues due on extended payment terms from its current percentage of completion computation because it cannot be presumed that those fees are fixed and determinable.

For software license arrangements in which a significant portion of the fee is due more than 12 months after delivery, the software license fee is deemed not to be fixed or determinable. For software license arrangements in which the fee is not considered fixed or determinable, the software license fee is recognized as revenue as payments become due and payable, if all other conditions to revenue recognition have been met. For software license arrangements in which the Company has concluded that collection of the fees is not probable, revenue is recognized as cash is collected. In making the determination of collectibility, the Company considers the creditworthiness of the customer, economic conditions in the customer's industry and geographic location, and general economic conditions.

For software license arrangements in which the Company's ability to enforce payment terms depends on customer acceptance provisions, software license fee revenue is recognized upon the earlier of the point at which (1) the customer accepts the software products or (2) the acceptance provisions lapse.

For software license arrangements in which VSOE of the fair value of undelivered elements does not exist to allocate the total fee to all elements of the arrangement, revenue is deferred until the earlier of the point at which (1) such sufficient VSOE of the fair value of undelivered elements does exist or (2) all elements of the arrangement have been delivered.

Gross versus Net. For software license arrangements in which the Company acts as a sales agent for another company's products, revenues are recorded on a net basis. These include arrangements in which the Company does not take title to the products, is not responsible for providing the product or service, earns a fixed commission, and assumes credit risk only to the extent of its commission. For software license arrangements in which the Company acts as a distributor of another company's product, and in certain circumstances, modifies or enhances the product, revenues are recorded on a gross basis. These include arrangements in which the Company takes title to the products and is responsible for providing the product or service.

Subscriptions and Usage Fees. For software license arrangements in which the Company permits the customer to vary their software mix, including the right to receive unspecified future software products during the software license term, the Company recognizes revenue ratably over the license

term, provided all other revenue recognition criteria have been met. For software license arrangements in which the customer is charged software license fees based on usage of the product, the Company recognizes revenue as usage occurs over the term of the licenses, provided all other revenue recognition criteria have been met.

Maintenance Fees. Revenues for PCS are recognized ratably over the maintenance term specified in the contract. In arrangements where a multi-year time-based software license has a duration of one year or less or the initial PCS term is relatively long (i.e. greater than fifty percent) compared to the term of the software license, the Company recognizes revenue for the entire arrangement ratably over the PCS term as VSOE of fair value cannot be established.

Services. Revenues from arrangements to provide professional services on a time and materials basis are recognized as the related services are performed. Revenues from professional services provided on a fixed fee basis are recognized using the percentage-of-completion method.

Non-monetary Transactions. Non-monetary transactions are accounted for in accordance with Accounting Principles Board ("APB") Opinion No. 29, "Accounting for Non-monetary Transactions," which requires that the transfer or distribution of a non-monetary asset or liability generally be based on the fair value of the asset or liability that is received or surrendered, whichever is more clearly evident. In those cases where fair value of the assets exchanged is not readily determinable, the exchange is recorded at the historical cost of the asset surrendered.

Accrued Receivables. Accrued receivables represent amounts to be billed in the near future (less than 12 months).

Deferred Revenue. Deferred revenue represents (1) payments received from customers for software licenses, maintenance and/or services in advance of providing the product or performing services, (2) amounts deferred whereby VSOE does not exist, or (3) amounts deferred if other conditions to revenue recognition have not been met.

Provision for Doubtful Accounts

The Company maintains a general allowance for doubtful accounts based on its historical experience, along with additional customer-specific allowances. The Company regularly monitors credit risk exposures in its accounts receivable. In estimating the necessary level of its allowance for doubtful accounts, management considers the aging of its accounts receivable, the creditworthiness of the Company's customers, economic conditions within the customer's industry, and general economic conditions, among other factors. Should any of these factors change, the estimates made by management will also change, which in turn impacts the level of the Company's future provision for doubtful accounts. Specifically, if the financial condition of the Company's customers were to deteriorate, affecting their ability to make payments, additional customer-specific provision for doubtful accounts may be required. Also, should deterioration occur in general economic conditions, or within a particular industry or region in which the Company has a number of customers, additional provision for doubtful accounts may be recorded to reserve for potential future losses. A portion of the Company's allowance is related to issues other than creditworthiness, such as disagreements with customers.

Impairment of Investments

The Company records a non-cash charge to earnings when it determines that an investment has experienced an "other than temporary" decline in market value. To make this determination, the Company reviews the carrying value of its marketable equity security investments at the end of each reporting period for impairment. Other-than-temporary impairments are generally recognized if the market value of the investment is below its current carrying value for an extended period, which the Company generally defines as six to nine months, or if the issuer has experienced significant financial declines or difficulties

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in raising capital to continue operations, among other factors. Future adverse changes in market conditions or poor operating results of underlying investments could result in an inability to recover the carrying value of the recorded marketable securities, thereby possibly requiring additional impairment charges in the future.

Acquired Intangible Assets

In accordance with Statement of Financial Accounting Standard ("SFAS") No. 141, "Business Combinations," the Company allocates the cost of the acquired companies to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being classified as goodwill. Certain intangible assets, such as software, are amortized to expense over time, while in-process research and development costs, if any, are recorded as a one-time charge at the acquisition date if it is determined that it has no alternative future use. The types of entities acquired by the Company generally do not have significant tangible assets and, as a result, a significant portion of the purchase price is typically allocated to software and goodwill. The Company's future operating performance will be impacted by the future amortization of software and potential impairment charges related to goodwill. Accordingly, the allocation of the purchase price to intangible assets and goodwill has a significant impact on the Company's future operating results. The allocation of the purchase price of the acquired companies to intangible assets and goodwill requires management to make significant estimates and assumptions, including estimates of future cash flows expected to be generated by the acquired assets and the appropriate discount rate to value these cash flows. Should different conditions prevail, material write-downs of net intangible assets and/or goodwill could occur.

Impairment of Goodwill

In accordance with SFAS No. 142, goodwill is tested for impairment at the reporting unit level and must be tested at least annually, 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 reporting unit. If the fair value exceeds the carrying value, no impairment loss is to 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, is then measured in the second step. For impairment testing purposes, the Company has utilized the services of an independent consultant to perform valuations of the Company's reporting units that contained goodwill. Under SFAS No. 142, goodwill is no longer amortized.

Software Amortization and Impairment

Software consists of internally-developed software and purchased software. The Company capitalizes costs related to certain internally-developed software when the resulting products reach technological feasibility. Technological feasibility is determined upon completion of a detailed program design or internal specification. The internal specification establishes that the product can be produced to meet its design specifications including functions, features and technical performance requirements. Purchased software consists of software to be marketed externally that was acquired primarily as the result of a business acquisition ("acquired software") and costs of computer software obtained for internal use that were capitalized.

Amortization of internally-developed software costs begins when the products are available for licensing to customers and is computed separately for each product as the greater of (a) the ratio of current gross revenue for a product to the total of current and anticipated gross revenue for the product or (b) the straight-line method over three years. Due to competitive pressures, it may be possible the anticipated gross revenue or remaining estimated economic life of the software products will be reduced significantly. As a result, the carrying amount of the software product may be reduced accordingly. Amortization of acquired and internal-use software is generally computed using the straight-line method over its estimated useful life of approximately three years.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. An impairment loss is recorded if the sum of the future cash flows expected to result from the use of the asset (undiscounted and without interest charges) is less than the carrying amount of the asset. The amount of the impairment charge is measured based upon the fair value of the asset.

Accounting for Income Taxes

Accounting for income taxes requires significant judgments in the development of estimates used in income tax calculations. Such judgments include, but would not be limited to, the likelihood the Company would realize the benefits of net operating loss carryforwards, the adequacy of valuation allowances, and the rates used to measure transactions with foreign subsidiaries. As part of the process of preparing the Company's financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which the Company operates. The judgments and estimates used are subject to challenge by domestic and foreign taxing authorities. It is possible that either domestic or foreign taxing authorities could challenge those judgments and estimates and draw conclusions that would cause the Company to incur tax liabilities in excess of those currently recorded. Changes in the geographical mix or estimated amount of annual pretax income could impact the Company's overall effective tax rate.

To the extent recovery of deferred tax assets is not likely based on estimation of future taxable income in each jurisdiction, the Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. Although the Company has considered future taxable income along with prudent and feasible tax planning strategies in assessing the need for the valuation allowance, if the Company should determine that it would not be able to realize all or part of its deferred tax assets in the future, an adjustment to deferred tax assets would be charged to income in the period any such determination was made. Likewise, in the event the Company was able to realize its deferred tax assets in the future in excess of the net recorded amount, an adjustment to deferred tax assets would increase income in the period any such determination was made.

Results of Operations

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

	Three Months Ended December 31,			
	2002		2001	
	Amount	% of Revenue	Amount (1)	% of Revenue (1)
Revenues:				
Initial license fees (ILFs)	$ 11,243	18.0 %	$ 19,723	27.0 %
Monthly license fees (MLFs)	20,087	32.1	21,108	28.8
Software license fees	31,330	50.1	40,831	55.8
Maintenance fees	18,604	29.8	18,782	25.6
Services	12,555	20.1	13,624	18.6
Total revenues	62,489	100.0	73,237	100.0
Expenses:				
Cost of software license fees	5,939	9.5	9,218	12.6
Cost of maintenance and services	14,808	23.7	16,038	21.9
Research and development	7,950	12.7	9,049	12.3
Selling and marketing	13,736	22.0	14,257	19.5
General and administrative	12,583	20.1	12,896	17.6
Total expenses	55,016	88.0	61,458	83.9
Operating income	7,473	12.0	11,779	16.1
Other income (expense):				
Interest income	310	0.5	311	0.4
Interest expense	(956)	(1.6)	(1,619)	(2.2)
Other, net	(1,139)	(1.8)	(4,471)	(6.1)
Total other income (expense)	(1,785)	(2.9)	(5,779)	(7.9)
Income before income taxes	5,688	9.1	6,000	8.2
Income tax provision	(2,693)	(4.3)	(3,583)	(4.9)

Net income	$ 2,995	4.8 %	$ 2,417	3.3 %

(1) The Company has reclassified and restated its consolidated financial information. See Notes 1 and 10 to the consolidated financial statements for further details.

Revenues. Total revenues for the first quarter of fiscal 2003 decreased $10.7 million, or 14.7%, as compared to the same period of fiscal 2002. The decrease is the result of a $9.5 million, or 23.3%, decrease in software license fee revenues, a $0.2 million or 0.9%, decrease in maintenance fee revenues and a $1.1 million, or 7.8%, decrease in services revenues. Approximately $1.5 million of the decrease in total revenues for first quarter of fiscal 2003 was due to the sale of Regency Systems, Inc. ("Regency") in February 2002, which was part of the ACI Worldwide business unit.

ACI Worldwide's software license fee revenues decreased primarily due to a shift in product demand from the Company's more-established products to its newer BASE24-es product and its Payments Management products. As a result of this shift to newer products, absent other factors, the Company will experience a decrease in revenues due to differences in the timing of revenue recognition for the respective products. Revenues under less-established products are typically recognized upon first production use by the customer due to uncertainties surrounding customer acceptance of the product, whereas revenues from mature products, such as BASE24, are generally recognized upon delivery of the product. In addition, demand for ACI Worldwide's products in the EMEA region has

decreased due to depressed economic conditions that have caused customers to forecast a slowing of electronic transaction volume growth. As a result, these customers have reduced their information technology budgets and spending commitments. Insession Technologies' software license fee revenues decreased primarily due to system consolidations and company consolidations. In addition, as customers within the Insession Technologies business unit renew existing contracts, the renewal contract generally has a higher proportion of the total fees that relate to maintenance.

The decrease in maintenance fee revenues is primarily due to decreases resulting from the sale of Regency, offset by growth in the installed base of software products within the ACI Worldwide business unit, along with the higher proportion of maintenance revenues resulting from contract renewals within the Insession Technologies business unit, as discussed above.

The decrease in services revenues for the first quarter of fiscal 2003, as compared to the same period in fiscal 2002, is primarily the result of a decreased demand in the ACI Worldwide and Insession Technologies business units for technical and project management services. This decreased demand is primarily due to (1) increased competition in the marketplace by companies that offer services work at lower rates, (2) many larger customers increasing their internal staffs in order to reduce their dependence on external resources and (3) general decreases in worldwide demand for services as a result of depressed economic conditions. Offsetting the decreased services revenues in the ACI Worldwide and Insession Technologies business units is an increase in demand for services in the IntraNet business unit resulting from the migration of its customers from the Digital VAX-based MTS product to the new RS6000-based MTS product.

Expenses. Total operating expenses for the first quarter of fiscal 2003 decreased $6.4 million, or 10.5%, as compared to the same period of fiscal 2002. During fiscal 2002, the Company put an emphasis on reducing overall staffing levels through attrition or delayed hiring decisions in an attempt to reduce operating expenses. In addition, approximately $2.5 million of the decrease in operating expenses for the first quarter of fiscal 2002 was due to the sale of Regency.

Cost of software license fees for the first quarter of fiscal 2003 decreased $3.3 million, or 35.6%, as compared to the same period of fiscal 2002. This decrease was due primarily to a $2.0 million decrease in software amortization due to software products that are now fully amortized, as well as decreases in personnel-related expenses due to reduced staff levels. In addition, distributor commissions decreased due to lower revenue levels.

Cost of maintenance and services for the first quarter of fiscal 2003 decreased $1.2 million, or 7.7%, as compared to the same period of fiscal 2002. This decrease was primarily the result of fewer staff (internal and external) needed to support the Company's ACI Worldwide and Insession Technologies services-related business, which experienced declines in demand.

Research and development ("R&D") costs for the first quarter of fiscal 2003 decreased $1.1 million, or 12.1%, as compared to the same period of fiscal 2002. R&D costs as a percentage of total revenues for the first quarter of fiscal 2003 and 2002 were 12.7% and 12.3%, respectively.

Selling and marketing costs for the first quarter of fiscal 2003 decreased $0.5 million, or 3.7%, as compared to the same period of fiscal 2002, resulting primarily from a decreased emphasis on advertising and promotional programs, offset by increased marketing commissions. Selling and marketing costs as a percentage of total revenues for the first quarter of fiscal 2003 and 2002 were 22.0% and 19.5%, respectively. This increase is primarily due to lower revenue levels and the shift in sales focus from the Company's more-established products to its newer BASE24-es product and its Payments Management products.

General and administrative costs for the first quarter of fiscal 2003 decreased $0.3 million, or 2.4%, as compared to the same period of fiscal 2002.

Other Income and Expense. Interest expense for the first quarter of fiscal 2003 decreased $0.7 million, or 41.0%, as compared to the same period of fiscal 2002. The decrease was attributable to a

change in the amount of borrowings outstanding under the line of credit (no borrowings at December 31, 2002 as compared to borrowings outstanding of $5.0 million at December 31, 2001), as well as a reduction in debt - financing agreements (balance at December 31, 2002 of $38.7 million as compared to $54.3 million at December 31, 2001).

Other expenses for the first quarter of fiscal 2003 decreased $3.3 million, or 74.5%, as compared to the same period of fiscal 2002. During the first quarter of fiscal 2002, the Company recorded impairments of marketable equity securities totaling $3.1 million.

Income Taxes. The effective tax rate for the first quarter of fiscal 2003 was approximately 47.3% as compared to 59.7% for the same period of fiscal 2002. The effective tax rate for the first quarter of fiscal 2003 was primarily impacted by non-recognition of tax benefits for operating losses in certain foreign locations and recognition of a valuation allowance for foreign tax credits. The effective tax rate for the first quarter of fiscal 2002 was primarily impacted by non-recognition of tax benefits for operating losses in certain foreign locations, foreign tax rate differentials and gain on sale of subsidiary.

Each quarter, the Company evaluates its historical operating results as well as its projections for the future to determine the realizability of its deferred tax assets. As of December 31, 2002, the Company has deferred tax assets of $44.4 million (net of $51.6 million valuation allowance). The Company analyzes the recoverability of its net deferred tax assets at each reporting period. Because unforeseen factors may affect future taxable income, additional increases to the valuation reserve may be required in future periods.

Liquidity and Capital Resources

As of December 31, 2002, the Company's principal sources of liquidity consisted of $88.1 million in cash and cash equivalents. The Company has a $15.0 million line of credit agreement that expires in June 2003. This credit agreement is secured by certain trade receivables and 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. Interest on this credit facility, which is payable monthly, accrues at an annual rate, selected by the Company, equal to either the bank's prime rate or the LIBOR rate plus 2%. As a result of the restatements of its consolidated financial statements, the Company is not in compliance with the debt covenants as of December 31, 2002 and therefore the facility will not be available for borrowings. The Company had no line of credit borrowings outstanding as of December 31, 2002. The Company intends to initiate discussions with the bank in an effort to reset the debt covenants and other terms and conditions in the line of credit agreement. Although no assurances can be given, the Company believes it will be able to successfully obtain reset covenants, terms and conditions on its line of credit that will put the Company back in compliance, which in turn should make the entire $15.0 million available to the Company for future borrowings.

The Company's net cash flows provided by operating activities for the first three months of fiscal 2003 amounted to $4.6 million as compared to $16.6 million provided by operating activities during the same period of fiscal 2002. The decrease in operating cash flows resulted primarily from changes in billed and accrued receivables, deferred revenue and income taxes.

The Company's net cash flows used in investing activities totaled $0.4 million for the first three months of fiscal 2003 as compared to $2.9 million used in investing activities during the same period of fiscal 2002. During the first three months of fiscal 2003, the Company purchased software, property and equipment of $0.6 million as compared to $2.9 million for the first three months of fiscal 2002.

The Company's net cash flows used in financing activities totaled $4.6 million for the first three months of fiscal 2003 as compared to $8.8 million used in financing activities during the same period of fiscal 2002. In the past, an important contributor to the cash management program was the Company's factoring of future revenue streams, whereby interest in its future monthly license payments under installment or long-term payment arrangements is transferred on a non-recourse basis to third-party financial institutions in exchange for cash. The Company did not factor any future revenue streams

during the first three months of fiscal 2003. During the first three months of fiscal 2002, the Company generated cash flows from the factoring of future revenue streams of $5.8 million. During the first three months of fiscal 2003 and 2002, payments made to the third-party financial institutions were $4.6 million and $8.7 million, respectively. In addition, during the first three months of fiscal 2002, the Company made payments on its bank line of credit facilities of $7.0 million.

The Company believes that its existing sources of liquidity, including cash on hand and cash provided by operating activities, will satisfy the Company's projected liquidity 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 do not relate strictly to historical or current facts, and include words or phrases such as "management anticipates," "the Company believes," "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's calculation of backlog is based on customer contracts that exist on the date of the calculation. A number of factors may change after the date of calculation that could result in actual revenues being less than the amounts contained in backlog. The Company's customers may attempt to renegotiate or terminate contracts due to a number of factors, including mergers, changes in their financial condition, or general changes in economic conditions in the customer's industry or geographic location, or the Company may experience delays in the development of products or services specified in customer contracts. Accordingly, 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.

- The Company is currently in the process of evaluating the claims made in various lawsuits filed against the Company relating to its recent restatement of financial results. The Company intends to defend the foregoing lawsuits vigorously, but cannot predict the outcome and is not currently able to evaluate the likelihood of its success or the range of potential loss, if any. However, if the Company were to lose these lawsuits or if they were not settled on favorable terms, the judgment or settlement would likely have a material adverse effect on its consolidated financial position, results of operations and cash flows.

  The Company has insurance that provides an aggregate coverage of $20.0 million for the period during which the lawsuits were filed, but cannot evaluate at this time whether such coverage will be available or adequate to cover losses, if any, arising out of these lawsuits. If these policies do not adequately cover expenses and certain liabilities relating to these lawsuits, the Company's consolidated financial condition, results of operations and cash flows could be materially harmed. The Company's certificate of incorporation provides that it will indemnify and advance expenses to its directors and officers to the maximum extent permitted by Delaware law. The indemnification covers any expenses and liabilities reasonably incurred by a person, by reason of the fact that such person is or was or has agreed to be a director or officer, in connection with the investigation, defense and settlement of any threatened, pending or completed action, suit, proceeding or claim.

The shareholder lawsuits will likely increase the premiums the Company must pay for director and officer liability insurance in the future, and may make this insurance coverage prohibitively expensive or unavailable. Increased premiums for this insurance could materially harm the

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Company's financial results and cash flows in future periods. The inability to obtain this coverage due to its unavailability or prohibitively expensive premiums would make it more difficult for the Company to retain and attract officers and directors.

- The Company has restated certain of its prior financial statements as a result of reevaluating the accounting for several historical transactions. The Company is uncertain whether the lawsuits, change in the application of accounting principles and/or the restatement of prior period financial results will have a material adverse effect on the Company's customer, supplier or other business relationships.

- As a result of the Company's restatement of its prior consolidated financial statements, it is likely that the Company will be subject to inquiry or investigation by governmental authorities, including the Securities and Exchange Commission. The Securities and Exchange Commission has informally contacted the Company about the restatement process, but the Company has not been notified of a formal inquiry or investigation. In the event that the Company is subject to such an inquiry or investigation, the Company will fully cooperate with such inquiry or investigation. There is risk that such an inquiry or investigation could result in substantial costs and divert management attention and resources, which could adversely affect the Company's business.

- 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.

- No assurance can be given that operating results will not vary. Fluctuations in quarterly operating results may result in volatility in the Company's stock price. 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's stock price may also become volatile, in part, due to the announced change in the application of certain accounting principles and/or the restatement of prior period financial results.

- 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.

- Prior to its May 2002 merger with HP, Compaq Computer Corporation announced a plan to consolidate its high-end performance enterprise servers on the Intel Corp. Itanium microprocessor by 2004. The Company has not determined whether consolidation of the high-end servers, if it occurs as announced, will materially affect the Company's business, financial position or results of operations.

- The Company will continue to derive a substantial portion of its revenues from licensing of software products that operate on HP NonStop Himalaya servers. Any reduction in demand for these servers or in HP'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.

- 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 the Company's products and services.

Any or all of the forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many of these factors will be important in determining the Company's actual future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially from those expressed or implied in any forward-looking statements.

These cautionary statements and any other cautionary statements that may accompany such forward-looking statements, whether written or oral, expressly qualify all of the forward-looking statements. In addition, the Company disclaims any obligation to update any forward-looking statements after the date of this report unless applicable securities laws require it to do so.

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, 2002. See the Company's annual report on Form 10-K for the fiscal year ended September 30, 2002 for additional discussions regarding quantitative and qualitative disclosures about market risk.

Item 4. Controls and Procedures

Management and KPMG have advised the Company's Audit Committee that within the 90-day period prior to the date of this quarterly report on Form 10-Q, they noted deficiencies in internal controls relating to:

- revenue recognition procedures;
- formal policies and procedures for significant transactions;
- centralized oversight for international operations;
- timely reconciliation of general ledger accounts; and
- staffing and training of personnel.

KPMG has advised the Audit Committee that these internal control deficiencies constitute reportable conditions and, collectively, a material weakness as defined in Statement of Auditing Standards No. 60. Certain of these internal control weaknesses may also constitute deficiencies in the Company's disclosure controls. The Company has performed substantial additional procedures designed to ensure that these internal control deficiencies do not lead to material misstatements in its consolidated financial statements and to enable the completion of KPMG's quarterly review of its consolidated financial statements, notwithstanding the presence of the internal control weaknesses noted above. Based on these additional procedures, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

The Company has not yet been able to implement any substantial corrective actions as of the date of this quarterly report on Form 10-Q. The Company intends to implement changes promptly to address these issues, and will consider implementation of the following corrective actions as well as additional procedures:

1. Retention of outside professional advisors to evaluate the Company's existing internal controls and disclosure controls and make suggestions for implementation;
2. Review and revision of revenue recognition policies and contracting management policies and procedures, including more formalized training of finance, sales and other staffs;
3. Retention of additional personnel in finance positions;

4. Enhancement of the internal audit department, including retention of a full-time internal audit manager and support staff;
5. Additional management oversight and detailed reviews of disclosures and reporting; and
6. Use of significant outside resources to supplement its employees in the preparation of the consolidated financial statements and other reports filed or submitted under the Securities Exchange Act of 1934.

The Company will continue to evaluate the effectiveness of its disclosure controls and internal controls and procedures on an ongoing basis, and will take further action as appropriate.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

Class Action Litigation. Three class action lawsuits have been publicly announced against the Company and certain of its former and present officers and directors on behalf of purchasers of publicly-traded securities of the Company. The Company has not been served with any of the complaints relating to these actions. Based on the two complaints which are publicly available, the Company understands that the plaintiffs allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 thereunder, on the grounds that certain of the Company's Exchange Act reports and press releases contained untrue statements of material facts, or omitted to state facts necessary to make the statements therein not misleading, with regard to the Company's revenues and expenses during the class period. The complaints allege that during the purported class periods, the Company and the named officers and directors misrepresented the Company's historical financial condition, results of operations and its future prospects, and failed to disclose facts that could have indicated an impending decline in the Company's revenues. The plaintiffs are seeking unspecified damages, interest, fees, costs and rescission. The class periods stated in the two complaints are January 21, 1999 through November 18, 2002 and December 29, 1999 through August 14, 2002.

Derivative Litigation. On January 10, 2003, Samuel Naito filed the suit of "Samuel Naito, Derivatively on behalf of Nominal Defendant Transaction Systems Architects, Inc. v. Roger K. Alexander, Gregory D. Derkacht, Gregory J. Duman, Larry G. Fendley, Jim D. Kever, and Charles E. Noell, III and Transaction Systems Architects, Inc." in the State District Court in Douglas County, Nebraska. The suit is a shareholder derivative action that generally alleges that the named individuals breached their fiduciary duties of loyalty and good faith owed to the Company and its shareholders by causing the Company to conduct its business in an unsafe, imprudent and unlawful manner resulting in damage to the Company. More specifically, the plaintiff alleges that the individual defendants, and particularly the members of the Company's audit committee, failed to implement and maintain an adequate internal accounting control system that would have enabled the Company to discover irregularities in its accounting procedures of certain transactions prior to August 2002, thus violating their fiduciary duties of loyalty and good faith, generally accepted accounting principles and the Company's audit committee charter. The plaintiff seeks to recover an unspecified amount of money damages allegedly sustained by the Company as a result of the individual defendants' breaches of fiduciary duties, as well as the plaintiff's costs and disbursements related to the suit.

On January 24, 2003, Michael Russiello filed the suit of "Michael Russiello, Derivatively on behalf of Nominal Defendant Transaction Systems Architects, Inc. v. Roger K. Alexander, Gregory D. Derkacht, Gregory J. Duman, Larry G. Fendley, Jim D. Kever, and Charles E. Noell, III and Transaction Systems Architects, Inc." in the State District Court in Douglas County, Nebraska. The suit is a shareholder derivative action that generally alleges that the named individuals breached their fiduciary duties of loyalty and good faith owed to the Company and its shareholders by causing the Company to conduct its business in an unsafe, imprudent and unlawful manner resulting in damage to the Company. More specifically, the plaintiff alleges that the individual defendants, and particularly the members of the Company's audit committee, failed to implement and maintain an adequate internal accounting control system that would have enabled the Company to discover irregularities in its accounting procedures of certain transactions prior to August 2002, thus violating their fiduciary duties of loyalty and good faith, generally accepted accounting principles and the Company's audit committee charter. The plaintiff seeks to recover an unspecified amount of money damages allegedly sustained by the Company as a result of the individual defendants' breaches of fiduciary duties, as well as the plaintiff's costs and disbursements related to the suit.

These class action and derivative lawsuits were brought in the United States District Court for the District of Nebraska and the Nebraska District Courts, respectively, and are at preliminary stages. The

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Company is currently in the process of preparing to respond to the claims made in the lawsuits. The Company intends to defend the foregoing lawsuits vigorously, but, since the lawsuits have only recently been filed, the Company cannot predict the outcome and is not currently able to evaluate the likelihood of success or the range of potential loss, if any, that might be incurred in connection with such actions. However, if the Company were to lose any of these lawsuits or if they were not settled on favorable terms, the judgment or settlement may have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows. The Company has insurance that provides an aggregate coverage of $20.0 million for the period during which the claims were filed, but cannot evaluate at this time whether such coverage will be available or adequate to cover losses, if any, arising out of these lawsuits.

The Company anticipates that additional suits of this nature may be commenced. The Company will fully analyze these allegations once all of the complaints are received and intends to vigorously defend against them. There is a risk that such litigation could result in substantial costs and divert management attention and resources from its business, which could adversely affect the Company's business.

As a result of the Company's restatement of its prior consolidated financial statements, it is likely that the Company will be subject to inquiry or investigation by governmental authorities, including the Securities and Exchange Commission. The Securities and Exchange Commission has informally contacted the Company about the restatement process, but the Company has not been notified of any formal inquiry or investigation. In the event that the Company is subject to such an inquiry or investigation, the Company will fully cooperate with such inquiry or investigation. There is risk that such an inquiry or investigation could result in substantial costs and divert management attention and resources, which could adversely affect the Company's business.

In addition to the foregoing, from time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. The Company is not currently a party to any such legal proceedings, other than as described above, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on the Company's financial condition or results of operations.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

99.01	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.02	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

The Company filed a current report on Form 8-K on November 20, 2002 providing an update on the re-audit, announcing that the Company will change its revenue recognition policy for prior periods and that it has requested an extension from Nasdaq until December 31, 2002 to complete the re-audit process.

The Company filed a current report on Form 8-K on November 26, 2002 announcing that Nasdaq granted an extension to December 31, 2002 to file with the SEC and Nasdaq restated financial information for prior periods.

The Company filed a current report on Form 8-K on December 30, 2002 announcing that it has not completed the re-audit of its financial statements for prior periods, that its Form 10-K will not be filed by December 30, 2002, and that it has requested an extension from Nasdaq until January 13, 2003 to complete the re-audit process and continue trading on the Nasdaq National Market.

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)

Date: February 13, 2003

By: /S/ DWIGHT G. HANSON

Dwight G. Hanson
Chief Financial Officer, Treasurer
and Senior Vice President

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Gregory D. Derkacht, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Transaction Systems Architects, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 13, 2003

By: /S/ GREGORY D. DERKACHT

Gregory D. Derkacht
Chief Executive Officer, President
and Director

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Dwight G. Hanson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Transaction Systems Architects, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 13, 2003	By:	/s/ DWIGHT G. HANSON
		Dwight G. Hanson *Chief Financial Officer, Treasurer and Senior Vice President*

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SIGNATURE
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
CERTIFICATION OF CHIEF FINANCIAL OFFICER

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Exhibit 99.01

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

In connection with the Quarterly Report of Transaction Systems Architects, Inc. (the "Company") on Form 10-Q for the quarter ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory D. Derkacht, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1) The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	February 13, 2003	By:	/S/ GREGORY D. DERKACHT
			Gregory D. Derkacht *Chief Executive Officer, President and Director*

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Exhibit 99.01

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

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Exhibit 99.02

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

In connection with the Quarterly Report of Transaction Systems Architects, Inc. (the "Company") on Form 10-Q for the quarter ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dwight G. Hanson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1) The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	February 13, 2003	By:	/S/ DWIGHT G. HANSON
			Dwight G. Hanson *Chief Financial Officer, Treasurer and Senior Vice President*

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Exhibit 99.02

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