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 March 31, 2005

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 Exchange Act).

Yes x No

As of April 29, 2005, there were 37,691,569 shares of the registrant's Common Stock, par value $.005 per share, outstanding (which includes 2,212 options to purchase shares of the registrant's Common Stock at an exercise price of one cent per share).

TABLE OF CONTENTS

==

PART I - FINANCIAL INFORMATION

TRANSACTION SYSTEMS ARCHITECTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	March 31, 2005 (unaudited)	September 30, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 87,499	$ 134,198
Marketable securities	108,439	35,434
Billed receivables, net of allowances of $2,878 and $2,834, respectively	52,484	44,487
Accrued receivables	7,821	11,206
Recoverable income taxes	3,462	11,524
Deferred income taxes, net	-	230
Other	8,565	6,901
Total current assets	268,270	243,980
Property and equipment, net	7,974	8,251
Software, net	1,861	1,454
Goodwill	46,905	46,706
Deferred income taxes, net	28,999	22,943
Other	2,941	2,124
Total assets	$ 356,950	$ 325,458
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt - financing agreements	$ 3,799	$ 7,027
Accounts payable	7,856	6,974
Accrued employee compensation	12,397	13,354
Deferred income taxes, net	363	-
Deferred revenue	89,491	82,647
Accrued and other liabilities	10,601	9,890
Total current liabilities	124,507	119,892
Debt - financing agreements	807	2,327
Deferred revenue	16,348	15,427
Other	1,314	851
Total liabilities	142,976	138,497
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred Stock, $.01 par value; 5,000,000 shares authorized; no shares issued and outstanding at March 31, 2005 and September 30, 2004	-	-
Common Stock, $.005 par value; 70,000,000 shares authorized; 39,920,983 and 39,105,484 shares issued at March 31, 2005 and September 30, 2004, respectively	200	196
Treasury stock, at cost; 1,827,209 and 1,476,145 shares at March 31, 2005 and September 30, 2004, respectively	(43,293)	(35,258)
Additional paid-in capital	265,763	254,715
Retained earnings (accumulated deficit)	1,199	(22,917)
Accumulated other comprehensive loss, net	(9,895)	(9,775)
Total stockholders' equity	213,974	186,961
Total liabilities and stockholders' equity	$ 356,950	$ 325,458

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

TRANSACTION SYSTEMS ARCHITECTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
Revenues:				
Software license fees	$ 42,953	$ 42,380	$ 90,759	$ 83,613
Maintenance fees	22,649	22,370	44,729	43,683
Services	10,024	11,777	20,744	23,248
Total revenues	75,626	76,527	156,232	150,544
Expenses:				
Cost of software license fees	5,725	6,189	11,631	12,828
Cost of maintenance and services	13,818	14,739	27,654	29,718
Research and development	10,223	9,572	20,138	19,005
Selling and marketing	15,368	16,127	30,669	29,917
General and administrative	14,449	15,834	28,012	29,502
Total expenses	59,583	62,461	118,104	120,970
Operating income	16,043	14,066	38,128	29,574
Other income (expense):				
Interest income	864	349	1,448	872
Interest expense	(137)	(381)	(305)	(912)
Other, net	255	(131)	(992)	2,074
Total other income (expense)	982	(163)	151	2,034
Income before income taxes	17,025	13,903	38,279	31,608
Income tax provision	(5,832)	(5,927)	(14,163)	(13,591)
Net income	$ 11,193	$ 7,976	$ 24,116	$ 18,017
Earnings per share information:				
Weighted average shares outstanding:				
Basic	38,121	36,846	37,949	36,613
Diluted	38,903	38,027	38,731	37,835
Earnings per share:				
Basic	$ 0.29	$ 0.22	$ 0.64	$ 0.49
Diluted	$ 0.29	$ 0.21	$ 0.62	$ 0.48

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

TRANSACTION SYSTEMS ARCHITECTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	Six Months Ended March 31, 2005	Six Months Ended March 31, 2004
Cash flows from operating activities:		
Net income	$ 24,116	$ 18,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,945	2,196
Amortization	441	1,333
Deferred income taxes	(5,285)	5,063
Tax benefit of stock options exercised	2,526	2,865
Changes in operating assets and liabilities:		
Billed and accrued receivables, net	(3,464)	(11,432)
Other current and noncurrent assets	(3,325)	(3,447)
Accounts payable	734	(1,489)
Recoverable income taxes	8,062	783
Deferred revenue	6,044	6,141
Other current and noncurrent liabilities	(1,287)	1,509
Net cash provided by operating activities	30,507	21,539
Cash flows from investing activities:		
Purchases of property and equipment	(1,577)	(1,003)
Purchases of software	(912)	(170)
Net (purchases) sales of marketable securities	(73,097)	1,213
Net cash provided by (used in) investing activities	(75,586)	40
Cash flows from financing activities:		
Proceeds from issuance of Common Stock	487	476
Proceeds from exercises of stock options	7,892	8,577
Repurchases of Common Stock	(7,249)	-
Payments on debt - financing agreements	(4,984)	(9,733)
Other	397	(291)
Net cash used in financing activities	(3,457)	(971)
Effect of exchange rate fluctuations on cash	1,837	2,462
Net increase in cash and cash equivalents	(46,699)	23,070
Cash and cash equivalents, beginning of period	134,198	78,959
Cash and cash equivalents, end of period	$ 87,499	$ 102,029

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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. 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 electronic-payment processors, both in domestic and international markets.

Condensed Consolidated Financial Statements

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The condensed consolidated financial statements at March 31, 2005, and for the three and six months ended March 31, 2005 and 2004, are unaudited and reflect all adjustments (consisting only of normal recurring adjustments except as otherwise discussed herein) 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 year presentation.

The condensed 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, 2004. The results of operations for the three and six months ended March 31, 2005, are not necessarily indicative of the results that may be achieved for the entire fiscal year ending September 30, 2005.

Use of Estimates in Preparation of Condensed Consolidated Financial Statements

The preparation of the condensed 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, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. 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," as amended by SAB 104, "Revenue Recognition." 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 maintenance fees (also referred to as postcontract customer support or "PCS") or other products or services, is deferred and subsequently recognized as the products are delivered, or as PCS or other 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 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 generally 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 generally 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 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 beyond the Company's established payment terms, including those 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, provided all other conditions for 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, provided all other conditions for revenue recognition have been met. 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.

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 the absence of customer-specific acceptance provisions, software license arrangements generally grant customers a right of refund or replacement only if the licensed software does not perform in accordance with its published specifications. If the Company's product history supports an assessment by management that the likelihood of non-acceptance is remote, the Company recognizes revenue when all other criteria of revenue recognition are met.

For those software license arrangements that include customer-specific acceptance provisions, such provisions are generally presumed to be substantive and the Company does not recognize revenue until the earlier of the receipt of a written customer acceptance, objective demonstration that the delivered product meets the customer-specific acceptance criteria or the expiration of the acceptance period. The Company also defers the recognition of revenue on transactions involving less-established or newly released software products that do not have a product history. The Company recognizes revenues on such arrangements upon the earlier of receipt of written acceptance or the first production use of the software by the customer.

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.

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 variable software license fees based on usage of the product, the Company recognizes revenue as usage occurs over the term of the license, 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 VSOE of fair value of PCS cannot be determined (for example, a time-based software license with a duration of one year or less), the Company recognizes revenue for the entire arrangement ratably over the PCS term.

Services. The Company provides various professional services to customers, primarily project management, software implementation and software modification services. Revenues from arrangements to provide professional services are generally recognized as the related services are performed. For those arrangements in which services revenue is deferred and the Company determines that the costs of services are recoverable, the costs of providing such services are also deferred and subsequently expensed in proportion to the services revenue as it is recognized.

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

Deferred Revenue. Deferred revenue includes (1) amounts currently due and payable from customers, and 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 of the fair value of undelivered elements in a bundled arrangement does not exist, and (3) amounts deferred if other conditions for revenue recognition have not been met.

Cash, Cash Equivalents and Marketable Securities

The Company has reviewed the classification of securities within its investment portfolio and has reclassified its investments in auction rate notes from cash equivalents to marketable securities. Although such auction rate notes are rated as AAA or AA and are traditionally traded via the auction process within a period of three months or less, the Company determined that reclassification was appropriate due to the potential uncertainties inherent with any auction process. This reclassification had no impact on current assets, working capital or reported earnings. However, changes in marketable securities are presented in the investing activities section of the cash flows, resulting in reclassifications within that section of the consolidated statement of cash flows. Marketable securities held by the Company as of March 31, 2005 and September 30, 2004, consisting primarily of the aforementioned auction rate notes, were $108.4 million and $35.4 million, respectively. The Company considers all other highly liquid investments with original maturities of three months or less to be cash equivalents.

The Company accounts for its investments in marketable securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company's portfolio consists of securities classified as available-for-sale, which are recorded at fair market values based on quoted market prices. Net unrealized gains and losses on marketable securities (excluding other than temporary losses) are reflected in the consolidated financial statements as a component of accumulated other comprehensive income. Net realized gains and losses are computed on the basis of average cost and are recognized when realized.

Stock-Based Compensation Plans

The Company accounts for its stock-based compensation plans under the intrinsic value method in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and follows the disclosure provisions of Statement of Financial Accounting Standard ("SFAS") No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." The significant majority of the Company's stock options are subject only to time-based vesting provisions and include exercise prices that are equal to the fair market value of the Company's stock at the time of grant. Consequently, no compensation expense is recorded for such options under the intrinsic value method of APB Opinion No. 25. On March 9, 2005, the Company granted 400,000 stock options to Mr. Philip G. Heasley, President, Chief Executive Officer and Director of the Company, that vest, if at all, at any time following the second anniversary of the date of grant, upon attainment by the Company of a market price of at least $50 per share for sixty consecutive trading days. Pursuant to the requirements of the intrinsic value method of APB Opinion No. 25, the Company will

record compensation expense when it becomes probable that the target stock price will be achieved. At March 31, 2005, no compensation expense has been recorded for this grant of stock options.

The Company calculates stock-based compensation pursuant to the disclosure provisions of SFAS No. 123 using the straight-line method over the vesting period of the option. Had compensation cost for the Company's stock-based compensation plans been determined using the fair value method at the grant date of the stock options awarded under those plans, consistent with the fair value method of SFAS No. 123, the Company's net income and earnings per share for the three and six months ended March 31, 2005 and 2004 would have approximated the following pro forma amounts (in thousands, except per share amounts):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
Net income:				
As reported	$ 11,193	$ 7,976	$ 24,116	$ 18,017
Deduct: stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(663)	(594)	(1,293)	(1,212)
Add: stock-based employee compensation expense recorded under the intrinsic value method, net of related tax effects	76	33	95	52
Pro forma	$ 10,606	$ 7,415	$ 22,918	$ 16,857
Earnings per share:				
Basic, as reported	$ 0.29	$ 0.22	$ 0.64	$ 0.49
Basic, pro forma	$ 0.28	$ 0.20	$ 0.60	$ 0.46
Diluted, as reported	$ 0.29	$ 0.21	$ 0.62	$ 0.48
Diluted, pro forma	$ 0.27	$ 0.19	$ 0.59	$ 0.45

As noted above, the Company has issued options that vest over time as well as options that vest upon the Company's stock achieving a stated market price level in the future. With respect to options granted that vest with the passage of time, the fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model, a pricing model acceptable under SFAS No. 123, with the following weighted-average assumptions:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
Expected life	4.1	3.9	4.1	4.1
Interest rate	4.0%	2.4%	4.0%	2.6%
Volatility	46%	85%	47%	85%
Dividend yield	--	--	--	--

For purposes of SFAS No. 123, in order to determine the grant date fair value of the 400,000 options granted to Mr. Heasley that vest based on the achievement of certain market conditions, a Monte Carlo simulation model was used to estimate (i) the probability that the performance goal will be achieved and (ii) the length of time required to attain the target market price. The Monte Carlo simulation model analyzed the Company's historical price movements, changes in the value of The NASDAQ Stock Market over time, and the correlation coefficient and beta between the Company's stock price and The NASDAQ Stock Market. The Monte Carlo simulation indicated that on a risk-weighted basis these stock options would vest 3.6 years after the date of grant. The expected vesting period was then incorporated into a statistical regression analysis of the historical exercise behavior of other Company senior executives to arrive at an expected option life. With respect to options granted that vest based on the achievement of certain marcket conditions, the grant date fair value of such options was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Six Months Ended March 31, 2005	Six Months Ended March 31, 2004
Expected life	5.5	N/A	5.5	N/A
Interest rate	4.2%	N/A	4.2%	N/A
Volatility	46%	N/A	46%	N/A
Dividend yield	--	--	--	--

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. The assumptions used above in the Black-Scholes option-pricing model and the Monte Carlo simulation model, and the results of the Monte Carlo simulation model relating to stock price appreciation, are not the Company's estimate or projection of future market conditions or stock prices. The Company's actual future stock prices could differ materially. Additional future awards are anticipated.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No. 123R"). This revised accounting standard eliminates the ability to account for share-based compensation transactions using the intrinsic value method in accordance with APB Opinion No. 25 and requires instead that such transactions be accounted for using a fair-value-based method. SFAS No. 123R requires public entities to record noncash compensation expense related to payment for employee services by an equity award, such as stock options, in their financial statements over the requisite service period as of the first interim or annual period that begins after June 15, 2005. In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") 107, "Share-Based Payment," which includes recognition, measurement and disclosure guidance for companies as they begin to implement SFAS No. 123R. SAB 107 does not modify any of SFAS No. 123R's conclusions or requirements. In April 2005, the SEC issued a new rule that allows companies to implement the provisions of SFAS No. 123R at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005. The Company does not plan to adopt SFAS No. 123R prior to its first quarter of fiscal 2006. The adoption of SFAS No. 123R is expected to have a negative impact on the Company's consolidated results of operations and earnings per share. The Company has historically provided pro forma disclosures pursuant to SFAS No. 123 and SFAS No. 148 as if the fair value method of accounting for stock options had been applied, assuming use of the Black-Scholes option-pricing model. Although not currently anticipated, other assumptions may be utilized when SFAS No. 123R is adopted.

2. Goodwill and Software

Changes to the carrying amount of goodwill during the first six months of fiscal 2005 resulted from foreign currency translation adjustments. The carrying amount and accumulated amortization of the Company's intangible assets that were subject to amortization at each balance sheet date, consisting only of software, were as follows (in thousands):

	March 31, 2005	Sept. 30, 2004
Internally-developed software	$ 16,082	$ 15,929
Purchased software	46,807	45,596
	62,889	61,525
Less: accumulated amortization	(61,028)	(60,071)
Software, net	$ 1,861	$ 1,454

The Company did not capitalize software development costs during the first six months of fiscal 2005. The increase in carrying amount of internally-developed software resulted primarily from foreign currency translation adjustments. 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 and six months ended March 31, 2005 totaled $0.2

million and $0.5 million, respectively. Based on capitalized software at March 31, 2005, and assuming no impairment of these software assets, estimated amortization expense for the remainder of fiscal 2005 and in succeeding fiscal years is as follows (in thousands):

	Software Amortization
2005	$ 452
2006	753
2007	584
2008	71
Thereafter	1

3. 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, 2004 (in thousands):

	Lease Obligations
Balance, September 30, 2004	$ 548
Amounts paid year-to-date during fiscal 2005	(31)
Adjustments to previously recognized liabilities	(17)
Balance, March 31, 2005	$ 500

An estimated lease termination loss of $0.5 million for the corporate aircraft is the only remaining liability at March 31, 2005. The Company continues to seek an exit to the corporate aircraft lease, and final settlement of this obligation may result in adjustments to the liability.

4. Common Stock, Treasury Stock and Earnings Per Share

At the Annual Meeting of Stockholders held on March 8, 2005, the Company's stockholders approved a proposal that increased the Company's authorized capital stock; re-designated the Company's Class A Common Stock as "Common Stock" without modification of the rights, preferences or privileges associated with such shares; eliminated the Company's Class A Common Stock and Class B Common Stock; and decreased the number of authorized shares of Preferred Stock.

Options to purchase shares of Common Stock at an exercise price of one cent per share, received by shareholders of MessagingDirect Ltd. ("MDL") as part of its acquisition by the Company during fiscal 2001, that have not yet been converted into Common Stock are included in Common Stock for presentation purposes on the March 31, 2005 and September 30, 2004 consolidated balance sheets, and are included in common shares outstanding for earnings per share ("EPS") computations for the three and six months ended March 31, 2005 and 2004. Included in Common Stock are 2,212 and 3,645 MDL options, respectively, as of March 31, 2005 and September 30, 2004.

In December 2004, the Company announced that its Board of Directors approved a stock repurchase program authorizing the Company, from time to time as market and business conditions warrant, to acquire up to $80 million of its Common Stock. The Company did not make any purchases under its stock repurchase program during the first quarter of fiscal 2005. During the second quarter of fiscal 2005, the Company repurchased 351,064 shares of its Common Stock at an average price of $22.89 per share under this stock repurchase program, with cash paid of $7.2 million by March 31, 2005 and remaining settlements of $0.8 million occurring the first week of April on these repurchased shares. The maximum approximate dollar value of shares that may yet be purchased under the stock repurchase program is $72.0 million as of March 31, 2005. During the month of April 2005, the Company repurchased an additional 402,205 shares of its Common Stock under this stock repurchase program for approximately $8.7 million.

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 by the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of any outstanding dilutive securities (the denominator). The differences between the basic and diluted EPS denominators for the three months ended March 31, 2005 and 2004, which amounted to 782,000 and 1,181,000 shares, respectively, and for the six months ended March 31, 2005 and 2004, which amounted to 782,000 and 1,222,000 shares, respectively, were due to the dilutive effect of the Company's outstanding stock options. Excluded from the computations of diluted EPS for the three months ended March 31, 2005 and 2004 were antidilutive options for 839,000 and 802,000 shares, respectively, and for the six months ended March 31, 2005 and 2004 were antidilutive options for 716,000 and 804,000 shares, respectively, because the stock options were for contingently issuable shares or the exercise prices of the corresponding stock options were greater than the average market price of the Company's common shares during the respective periods.

5. Comprehensive Income/Loss

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
Net income	$ 11,193	$ 7,976	$ 24,116	$ 18,017
Other comprehensive income (loss):				
Foreign currency translation adjustments	16	314	(73)	(1,723)
Change in unrealized investment holding loss:				
Unrealized holding gain (loss) arising during the period	35	(2)	(47)	77
Reclassification adjustment for loss included in net income	-	97	-	107
Comprehensive income	$ 11,244	$ 8,385	$ 23,996	$ 16,478

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, 2004	$ (9,775)	$ -	$ (9,775)
Fiscal 2005 year-to-date activity	(73)	(47)	(120)
Balance, March 31, 2005	$ (9,848)	$ (47)	$ (9,895)

6. Segment Information

The Company has three operating segments, referred to as business units. These three business units are ACI Worldwide, Insession Technologies and IntraNet Worldwide. ACI Worldwide is the Company's largest business unit. Its product line includes the Company's 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 Worldwide products offer high value payments processing, bulk payments processing, global messaging and continuous link settlement processing.

The Company's chief operating decision makers, together with other senior management personnel, review 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. Most of the Company's products are sold and supported through distribution networks covering the geographic regions of the Americas, Europe/Middle East/Africa and Asia/Pacific. Each distribution network has its own sales force. The Company supplements its distribution networks with independent reseller and/or distributor arrangements. No single customer accounted for more than 10% of the Company's consolidated revenues during the three or six months ended March 31, 2005 or 2004.

The following are revenues and operating income for these business units for the periods indicated (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
Revenues:				
ACI Worldwide	$ 58,117	$ 57,875	$ 122,062	$ 115,591
Insession Technologies	10,166	10,516	19,675	18,966
IntraNet Worldwide	7,343	8,136	14,495	15,987
	$ 75,626	$ 76,527	$ 156,232	$ 150,544
Operating income:				
ACI Worldwide	$ 11,749	$ 9,140	$ 29,914	$ 21,240
Insession Technologies	2,954	3,431	5,763	5,244
IntraNet Worldwide	1,340	1,495	2,451	3,090
	$ 16,043	$ 14,066	$ 38,128	$ 29,574

7. Income Taxes

It is the Company's policy to report income tax expense for interim reporting periods using an estimated annual effective income tax rate. However, the tax effects of significant or unusual items are not considered in the estimated annual effective tax rate. The tax effect of such events is recognized in the interim period in which the event occurs.

The effective tax rate for the second quarter of fiscal 2005 was approximately 34.3% as compared to 42.6% for the same period of fiscal 2004. The effective tax rate for the first six months of fiscal 2005 was approximately 37.0% as compared to 43.0% for the same period of fiscal 2004. The effective tax rate for the second quarter and first six months of fiscal 2005 was primarily impacted by the utilization of foreign tax credits and foreign taxes levied at an effective rate lower than the US Federal tax rate. In addition, the Company's effective tax rate continues to benefit from the extraterritorial income exclusion. The improvement in the effective rate for the second quarter and first six months of fiscal 2005, as compared to the same periods of fiscal 2004, resulted primarily from increased utilization of foreign net operating losses, lower than expected state income tax expense and decreased federal tax expense related to tax-exempt interest income from municipal bonds.

The American Jobs Creation Act of 2004 (the "Jobs Act").

On October 22, 2004, the Jobs Act was enacted, which directly impacts the Company in several areas. The Jobs Act reduces the carryback period of foreign tax credits from two years to one year and extends the carryforward period from five years to ten years.

The Company currently takes advantage of the extraterritorial income exclusion ("EIE") in calculating its federal income tax liability. The Jobs Act repealed the EIE, the benefit of which will be phased out over the next three years, with 80% of the prior benefit allowed in calendar year 2005, 60% in 2006 and 0% allowed in years after 2006.

For tax years beginning after December 31, 2004, the Jobs Act replaced the EIE with the new "manufacturing deduction" that allows a deduction from taxable income of up to 9% of "qualified production activities income," not to

exceed taxable income. The deduction is phased in over a six-year period, with the eligible percentage increasing from 3% in 2005 to 9% in 2010.

The Jobs Act includes a foreign earnings repatriation provision that provides an 85% dividends received deduction for certain dividends received from controlled foreign corporations. The Company currently intends to reinvest foreign earnings indefinitely and accordingly, under APB Opinion No. 23, "Accounting for Income Taxes - Special Areas," has not recorded deferred tax liabilities for unpatriated foreign earnings. However, the Company will continue to analyze the potential tax impact should it elect to repatriate foreign earnings pursuant to the Jobs Act.

8. Contingencies

Legal Proceedings

From time to time, the Company is involved in litigation relating to claims arising out of its operations. Other than as described below, the Company is not currently a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, would be likely to have a material adverse effect on the Company's financial condition or results of operations.

Class Action Litigation. In November 2002, two class action complaints were filed in the U.S. District Court for the District of Nebraska (the "Court") against the Company and certain individuals alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Pursuant to a Court order, the two complaints were consolidated as Desert Orchid Partners v. Transaction Systems Architects, Inc., et al., with Genesee County Employees' Retirement System designated as the Lead Plaintiff. The First Amended Consolidated Class Action Complaint, filed on June 30, 2003 (the "Consolidated Complaint"), alleges that during the purported class period, the Company and the named defendants 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 Consolidated Complaint seeks unspecified damages, interest, fees, costs and rescission. The class period alleged in the Consolidated Complaint is January 21, 1999 through November 18, 2002. The Company and the individual defendants filed a motion to dismiss the Consolidated Complaint. In response, on December 15, 2003, the Court dismissed, without prejudice, Gregory Derkacht, the Company's President and Chief Executive Officer, as a defendant, but denied the motion to dismiss with respect to the remaining defendants, including the Company. On February 6, 2004, the Court entered a mediation reference order requiring the parties to mediate before a private mediator. The parties held a mediation session on March 18, 2004, which did not result in a settlement of the matter.

On July 1, 2004, lead plaintiff filed a motion for class certification wherein, for the first time, lead plaintiff sought to add an additional class representative, Roger M. Wally. On August 20, 2004, defendants filed their opposition to the motion. On March 22, 2005, the Court issued an order certifying the class. Discovery is continuing.

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 "Naito matter"). 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 stockholders 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 with regard to 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' alleged 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 "Russiello matter"). The suit is a stockholder derivative action

involving allegations similar to those in the Naito matter. The plaintiff seeks to recover an unspecified amount of money damages allegedly sustained by the Company as a result of the individual defendants' alleged breaches of fiduciary duties, as well as the plaintiff's costs and disbursements related to the suit.

The Company filed a motion to dismiss in the Naito matter on February 14, 2003 and a motion to dismiss in the Russiello matter on February 21, 2003. A hearing was scheduled on those motions for March 14, 2003. Just prior to that date, plaintiffs' counsel requested that the derivative lawsuits be stayed pending a determination of an anticipated motion to dismiss to be filed in the class action lawsuits. The Company, by and through its counsel, agreed to that stay. As a result, no other defendants have been served and no discovery has been commenced. The Company has not determined what effect the Court's ruling in the class action litigation will have on the Naito or Russiello matters.

Federal Derivative Litigation. On January 27, 2005, Norbert C. Abel, as Trustee on behalf of the Norbert C. Abel Trust, instituted a derivative action in federal District Court for the District of Nebraska against Gregory Derkacht, Seymour F. Harlan (sic), Roger K. Alexander, Jim D. Kever, Frank R. Sanchez, Jim Kerr, Charles E. Noell, III, Gregory J. Duman, Larry G. Fendley, William E. Fisher, Dwight Hanson, and David C. Russell, as individual defendants, and the Company, as nominal defendant (the "Abel matter"). The suit is a stockholder derivative action that contains virtually the same factual allegations as contained in the class action litigation described above. In addition, the suit alleges that the individual defendants breached fiduciary duties by failing to establish and maintain adequate accounting controls and, as to defendants Fisher, Russell, Duman, Fendley, Hanson and Derkacht, for breach of fiduciary duty and unjust enrichment based upon their receipt of salaries, bonuses and stock options based upon the Company's alleged false performance. The Complaint alleges Jim Kerr was a director of TSA. However, TSA has no record of an individual by the name of Jim Kerr ever having served as a director. As of this date, none of the defendants have been served with the Complaint. If the plaintiff effects service, the defendants intend to seek a stay of the Abel matter pending an outcome of the class action litigation, further intend to file a motion to dismiss the Complaint, and otherwise intend to vigorously defend the suit. Plaintiff does not specify what damages the Company has purportedly suffered, but does allege that the amount in controversy exceeds $75,000, as it must in order to maintain the action in federal court based upon diversity of citizenship.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Generally, forward-looking statements do not relate strictly to historical or current facts, and include words or phrases such as "management anticipates," "the Company believes," "the Company anticipates," "the Company expects," "the Company plans," "the Company will," "the Company is well positioned," and words and phrases of similar impact, and include, but are not limited to, statements regarding future operations, results, 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. Any or all of the forward-looking statements in this document may turn out to be wrong. They may be based on inaccurate assumptions or may not adequately account for known or unknown risks and uncertainties. Consequently, no forward-looking statement is guaranteed, and the Company's actual future results may vary materially from the results expressed or implied in the Company's forward-looking statements. The cautionary statements in this report expressly qualify all of the Company's forward-looking statements. In addition, the Company is not obligated, and does not intend, to update any of its forward-looking statements at any time unless an update is required by applicable securities laws. Factors that could cause actual results to differ from those expressed or implied in the forward-looking statements include, but are not limited to, those discussed below in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect the Company's Future Results or the Market Price of the Company's Common Stock."

Overview

The Company develops, markets, installs and supports a broad line of software products and services primarily focused on facilitating e-payments. In addition to its own products, the Company distributes, or acts as a sales agent for, software developed by third parties. Most of the Company's products are sold and supported through

distribution networks covering three geographic regions - the Americas, EMEA and Asia/Pacific. Each distribution network has its own sales force and supplements this with independent reseller and/or distributor networks. The Company's products and services are used principally by financial institutions, retailers and e-payment processors, both in domestic and international markets. Accordingly, the Company's business and operating results are influenced by trends such as information technology spending levels, the growth rate of the e-payments industry and changes in the number and type of customers in the financial services industry.

Several factors related to the Company's business may have a significant impact on its operating results from quarter to quarter. For example, the accounting rules governing the timing of revenue recognition in the software industry are complex, and it can be difficult to estimate when the Company will recognize revenue generated by a given transaction. Factors such as maturity of the software product licensed, payment terms, creditworthiness of the customer, and timing of delivery or acceptance of the Company's products often cause revenues related to sales generated in one period to be deferred and recognized in later periods. For those arrangements in which services revenue is deferred, related direct and incremental costs may also be deferred. In addition, while the Company's contracts are generally denominated in U.S. dollars, a substantial portion of its sales are made, and some of its expenses are incurred, in the local currency of countries other than the United States. Fluctuations in currency exchange rates in a given period may result in the Company's recognition of gains or losses for that period.

Certain industry-specific trends may also impact the Company's operating results from quarter to quarter. For example, growth rates in ATM deployment and transaction volumes are declining to flat in the U.S. while ATM markets outside the U.S. are growing. The Company cannot determine with certainty how this changing mix of ATM usage may impact the Company's future financial results. Point-of-sale debit transaction volumes are increasing and this may result in increased sales of the Company's e-payment solutions. Additionally, increased levels of fraud and identity theft may result in increased demand for the Company's fraud detection and payment authorization products. Increasing regulatory requirements imposed upon financial services companies, and other companies utilizing e-payment solutions, may also drive increased demand for certain of the Company's products.

Consolidation activity among financial institutions has increased in recent years. While it is difficult to assess the impact of this consolidation activity, management believes that recent consolidation activity may have negatively impacted the Company's financial results. Continuing consolidation activity may negatively impact the Company throughout fiscal 2005. While all three of the Company's business units are affected by this consolidation activity, the Company's IntraNet Worldwide business unit is particularly impacted because its customer base is concentrated within the largest financial institutions, which have been party to several of the recent consolidations. However, it is difficult to predict to what extent increased consolidation activity will continue, and if it does, whether it will have an overall long-term positive or negative impact on the Company's future operating results. There are several potential negative effects of increased consolidation activity. Continuing consolidation of financial institutions may result in a fewer number of existing and potential customers for the Company's products and services. Consolidation of two of the Company's customers could result in reduced revenues if the combined entity were to negotiate greater volume discounts or discontinue use of certain of the Company's products. Additionally, if a non-customer and a customer combine and the combined entity in turn decides to forego future use of the Company's products, the Company's revenue would decline. Conversely, the Company could benefit from the combination of a non-customer and a customer when the combined entity continues usage of the Company's products and, as a larger combined entity, increases its demand for the Company's products and services.

The Company continues to evaluate strategies intended to improve its overall effective tax rate. The Company's degree of success in this regard and related acceptance by taxing authorities of tax positions taken, as well as changes to tax laws in the United States and in various foreign jurisdictions, could cause the Company's effective tax rate to fluctuate from period to period.

Critical Accounting Policies and Estimates

This disclosure is 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 it believes to be proper and reasonable under the circumstances. The Company continually evaluates the appropriateness of estimates and assumptions used in the preparation of its consolidated financial statements. Actual results could differ from those estimates.

The following key accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements. See Note 1 to the consolidated financial statements for a further discussion of revenue recognition and other significant accounting policies.

Revenue Recognition

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, because vendor-specific objective evidence of fair value does not exist for the license element, the Company uses the residual method to determine the amount of revenue to be allocated to the license element. Under the residual method, the fair value of all undelivered elements, such as postcontract customer support 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. For software license arrangements in which the Company has concluded that collectibility issues may exist, revenue is recognized as cash is collected, provided all other conditions for revenue recognition have been met. 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.

In recent years, the Company's sales focus has shifted from its more-established ("mature") products to its newer BASE24-es product, its Payments Management products and other less-established (collectively referred to as "newer") products. As a result of this shift to newer products, absent other factors, the Company initially experiences an increase in deferred revenues and a corresponding decrease in current period revenues due to differences in the timing of revenue recognition for the respective products. Revenues from newer products are typically recognized upon acceptance or first production use by the customer whereas revenues from mature products, such as BASE24, are generally recognized upon delivery of the product, provided all other conditions for revenue recognition have been met. For those arrangements where revenues are being deferred and the Company determines that related direct and incremental costs are recoverable, such costs are deferred and subsequently expensed as the revenues are recognized. Newer products are continually evaluated by Company management and product development personnel to determine when any such product meets specific internally defined product maturity criteria that would support its classification as a mature product. Evaluation criteria used in making this determination include successful demonstration of product features and functionality; standardization of sale, installation, and support functions; and customer acceptance at multiple production site installations, among others. A change in product classification (from newer to mature) would allow the Company to recognize revenues from sales of the product upon delivery of the product rather than upon acceptance or first production use by the customer, resulting in earlier recognition of revenues from sales of that product, as well as related costs, provided all other revenue recognition criteria have been met.

When a software license arrangement includes services to provide significant modification or customization of software, those services are not considered to be separable from the software. Accounting for such services delivered over time is referred to as contract accounting. Under contract accounting, the Company generally 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 generally measured by the percentage of labor hours incurred to-date to estimated total labor hours for each contract. Estimated total labor hours for each contract are based on the project scope, complexity, skill level requirements, and similarities with other projects of similar size and scope. For those contracts subject to contract accounting, estimates of total revenue under the contract exclude amounts due under extended payment terms.

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 would also change, which in turn would impact 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 provisions 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 provisions for doubtful accounts may be recorded to reserve for potential future losses. Any such additional provisions would reduce operating income in the periods in which they were recorded.

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 are not limited to, the likelihood the Company would realize the benefits of net operating loss carryforwards and/or foreign tax credit 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 consolidated 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, or realize benefits less than, those currently recorded. In addition, 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, 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 a 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.

Business Units

The Company's products and services are currently organized within three operating segments, referred to as business units - ACI Worldwide, Insession Technologies and IntraNet Worldwide. The Company's chief operating decision makers review financial information presented on a consolidated basis, accompanied by disaggregated information about revenues and operating income by business unit. The following are revenues and operating income for these business units for the periods indicated (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
Revenues:				
ACI Worldwide	$ 58,117	$ 57,875	$ 122,062	$ 115,591
Insession Technologies	10,166	10,516	19,675	18,966
IntraNet Worldwide	7,343	8,136	14,495	15,987
	$ 75,626	$ 76,527	$ 156,232	$ 150,544
Operating income:				
ACI Worldwide	$ 11,749	$ 9,140	$ 29,914	$ 21,240
Insession Technologies	2,954	3,431	5,763	5,244
IntraNet Worldwide	1,340	1,495	2,451	3,090
	$ 16,043	$ 14,066	$ 38,128	$ 29,574

Backlog

Included in backlog are all software license fees, maintenance fees and services specified in executed contracts to the extent that the Company believes that recognition of the related revenues will occur within the next 12 months. Recurring backlog includes all monthly license fees, maintenance fees and facilities management fees. Non-recurring backlog includes other software license fees and services.

The following table sets forth the Company's recurring and non-recurring backlog, by business unit, as of March 31, 2005 (in thousands):

	Recurring	Non-Recurring	Total
ACI Worldwide	$ 132,834	$ 50,624	$ 183,458
Insession Technologies	22,265	8,119	30,384
IntraNet Worldwide	11,597	5,134	16,731
	$ 166,696	$ 63,877	$ 230,573

Customers may request that their contracts be renegotiated or terminated 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 backlog will actually generate the specified revenues or that the actual revenues will be generated within a 12-month period.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No. 123R"). This revised accounting standard eliminates the ability to account for share-based compensation transactions using the intrinsic value method in accordance with APB Opinion No. 25 and requires instead that such transactions be accounted for using a fair-value-based method. SFAS No. 123R requires public entities to record noncash compensation expense related to payment for employee services by an equity award, such as stock options, in their financial statements over the requisite service period as of the first interim or annual period that begins after June 15, 2005. In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") 107, "Share-Based Payment," which included recognition, measurement and disclosure guidance for companies as they begin to implement SFAS No. 123R. SAB 107 does not modify any of SFAS No. 123R's conclusions or requirements. In April 2005, the SEC issued a new rule that allows companies to implement the provisions of SFAS No. 123R at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005. The Company does not plan to adopt SFAS No. 123R prior to its first quarter of fiscal 2006. The adoption of SFAS No. 123R is expected to have a negative impact on the Company's consolidated results of operations and earnings per share. The Company has historically provided pro forma disclosures pursuant to SFAS No. 123 and SFAS No. 148 as if the fair value method of accounting for stock options had been applied, assuming use of the Black-Scholes option-pricing model. Although not currently anticipated, other assumptions may be utilized when SFAS No. 123R is adopted.

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 March 31,				Six Months Ended March 31,			
	2005		2004		2005		2004	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenues:								
Initial license fees (ILFs)........	$ 24,619	32.6%	$ 20,191	26.4%	$ 54,152	34.7%	$ 40,389	26.8%
Monthly license fees (MLFs)........	18,334	24.2	22,189	29.0	36,607	23.4	43,224	28.7
Software license fees..............	42,953	56.8	42,380	55.4	90,759	58.1	83,613	55.5
Maintenance fees...................	22,649	29.9	22,370	29.2	44,729	28.6	43,683	29.0
Services...........................	10,024	13.3	11,777	15.4	20,744	13.3	23,248	15.5
Total revenues...................	75,626	100.0	76,527	100.0	156,232	100.0	150,544	100.0
Expenses:								
Cost of software license fees......	5,725	7.6	6,189	8.1	11,631	7.5	12,828	8.5
Cost of maintenance and services...	13,818	18.3	14,739	19.2	27,654	17.7	29,718	19.8
Research and development...........	10,223	13.5	9,572	12.5	20,138	12.9	19,005	12.6
Selling and marketing..............	15,368	20.3	16,127	21.1	30,669	19.6	29,917	19.9
General and administrative.........	14,449	19.1	15,834	20.7	28,012	17.9	29,502	19.6
Total expenses...................	59,583	78.8	62,461	81.6	118,104	75.6	120,970	80.4
Operating income.....................	16,043	21.2	14,066	18.4	38,128	24.4	29,574	19.6
Other income (expense):								
Interest income....................	864	1.2	349	0.5	1,448	0.9	872	0.6
Interest expense...................	(137)	(0.2)	(381)	(0.5)	(305)	(0.2)	(912)	(0.6)
Other, net.........................	255	0.3	(131)	(0.2)	(992)	(0.6)	2,074	1.4
Total other income (expense).....	982	1.3	(163)	(0.2)	151	0.1	2,034	1.4
Income before income taxes...........	17,025	22.5	13,903	18.2	38,279	24.5	31,608	21.0
Income tax provision.................	(5,832)	(7.7)	(5,927)	(7.8)	(14,163)	(9.1)	(13,591)	(9.0)
Net income...........................	$ 11,193	14.8%	$ 7,976	10.4%	$ 24,116	15.4%	$ 18,017	12.0%

Revenues. Total revenues for the second quarter of fiscal 2005 decreased $0.9 million, or 1.2%, as compared to the same period of fiscal 2004. Total revenues for the first six months of fiscal 2005 increased $5.7 million, or 3.8%, as compared to the same period of fiscal 2004. The three-month decrease is the result of a $1.8 million, or 14.9%, decrease in services revenues, offset by a $0.6 million, or 1.4%, increase in software license fee revenues and a $0.3 million, or 1.2%, increase in maintenance fee revenues. The six-month increase is the result of a $7.2 million, or 8.5%, increase in software license fee revenues and a $1.0 million, or 2.4%, increase in maintenance fee revenues, offset by a $2.5 million, or 10.8%, decrease in services revenues.

For the first six months of fiscal 2005, as compared to the same period of fiscal 2004, ACI Worldwide's software license fee revenues increased by $6.0 million. This increase resulted from a sales mix during the current six-month period, and primarily in the first quarter, that was more heavily weighted toward the BASE24 product line, including increased license renewals and capacity upgrades in the Americas region, allowing an increased comparative percentage of sales to be recognized as revenues during the quarter rather than being deferred, as well as recognition of software license fees from customer acceptance of a significant BASE24-es application during the first quarter of fiscal 2005. As previously disclosed, there was also a significant license renewal that occurred within the EMEA region during the first quarter of fiscal 2004 which resulted in an increase in ACI Worldwide's software license fee revenues during that quarter. Insession Technologies' software license fee revenues were $0.5 million higher for the first six months of fiscal 2005, as compared to the same period of fiscal 2004, primarily due to increased activity related to its transactional data management products. For the first six months of fiscal 2005, as compared to the same period of fiscal 2004, IntraNet

Worldwide's software license fee revenues increased by $0.7 million, primarily due to a large Money Transfer System ("MTS") product contract extension that was recognized during the first quarter of fiscal 2005.

The increase in maintenance fee revenues during the first six months of fiscal 2005 as compared to the same period of fiscal 2004 is primarily due to growth in the installed base of software products within the ACI Worldwide and Insession Technologies' business units.

The decrease in services revenues during the second quarter of fiscal 2005, as compared to the same period of fiscal 2004, resulted primarily from decreased ACI Worldwide services revenues. Within this business unit, a greater percentage of services work during the current quarter related to the Company's newer BASE24-es product, which resulted in deferral of the corresponding services revenues until a time whereupon acceptance or first production use of the product occurs. The decrease in services revenues during the first six months of fiscal 2005, as compared to the same period of fiscal 2004, resulted primarily from a decrease in IntraNet Worldwide services revenues, as well as the deferral of ACI Worldwide services revenues during the second quarter as previously discussed. Since all of IntraNet Worldwide's MTS customers have successfully completed their migration from the HP AlphaServer-based MTS product (previously referred to as the Digital VAX-based MTS product) to the IBM sSeries-based MTS product (previously referred to as the RS6000-based MTS product), corresponding services revenues associated with the migration process have declined.

Expenses. Total operating expenses for the second quarter of fiscal 2005 decreased $2.9 million, or 4.6%, as compared to the same period of fiscal 2004. Total operating expenses for the first six months of fiscal 2005 decreased $2.9 million, or 2.4%, as compared to the same period of fiscal 2004.

Cost of software license fees for the second quarter of fiscal 2005 decreased $0.5 million, or 7.5%, as compared to the same period of fiscal 2004. Cost of software license fees for the first six months of fiscal 2005 decreased $1.2 million, or 9.3%, as compared to the same period of fiscal 2004. The decreases in cost of software license fees during both the second quarter and first six months of fiscal 2005, as compared to the same periods of fiscal 2004, were primarily due to higher commissions paid to distributors of the Company's products during those periods in fiscal 2004. The Company increased its use of outside contractors within the ACI Worldwide business unit during the second quarter of fiscal 2005, offsetting some of the benefits received from the decrease in distributor commission costs.

Cost of maintenance and services for the second quarter of fiscal 2005 decreased $0.9 million, or 6.2%, as compared to the same period of fiscal 2004. Cost of maintenance and services for the first six months of fiscal 2005 decreased $2.1 million, or 6.9%, as compared to the same period of fiscal 2004. The decreases in cost of maintenance and services during both the second quarter and first six months of fiscal 2005, as compared to the same periods of fiscal 2004, were primarily due to the deferral of direct and incremental costs related to installation services for the Company's newer BASE24-es product. For arrangements in which services revenues are deferred and the Company determines that the costs of services are recoverable, such costs are deferred and subsequently expensed in proportion to the services revenues as they are recognized. The six-month decrease also resulted from higher third-party royalty fees during the first quarter of fiscal 2004, which were offset by higher expenses in the first six months of fiscal 2005 resulting from changes in foreign currency exchange rates.

R&D costs for the second quarter of fiscal 2005 increased $0.7 million, or 6.8%, as compared to the same period of fiscal 2004. R&D costs for the first six months of fiscal 2005 increased $1.1 million, or 6.0%, as compared to the same period of fiscal 2004. The increases in R&D costs during both the second quarter and the first six months of fiscal 2005, as compared to the same periods of fiscal 2004, resulted primarily from increased personnel assigned to R&D activities and higher expenses in the first six months of fiscal 2005 resulting from changes in foreign currency exchange rates.

Selling and marketing costs for the second quarter of fiscal 2005 decreased $0.8 million, or 4.7%, as compared to the same period of fiscal 2004. Selling and marketing costs for the first six months of fiscal 2005 increased $0.8 million, or 2.5%, as compared to the same period of fiscal 2004. The decrease in selling and marketing costs during the second quarter of fiscal 2005, as compared to the same period of fiscal 2004, was primarily due to reduced marketing commissions and other compensation costs in the ACI Worldwide business unit during the second quarter of fiscal 2005 resulting primarily from regional sales mix differences and modified compensation plan structures. The Company restructured certain compensation plan payouts during the past year for sales activity related to items such as license renewals, capacity upgrades and services. The increase in selling and marketing costs during the first six months of fiscal 2005, as compared to the same period of fiscal 2004, was primarily due to higher expenses in the first six months of fiscal 2005 resulting from changes in foreign currency exchange rates, primarily in the EMEA region, as well as increases in travel-related expenses during the first quarter of fiscal 2005.

General and administrative costs for the second quarter of fiscal 2005 decreased $1.4 million, or 8.7%, as compared to the same period of fiscal 2004. General and administrative costs for the first six months of fiscal 2005 decreased $1.5 million, or 5.1%, as compared to the same period of fiscal 2004. The decreases in general and administrative costs during both the second quarter and first six months of fiscal 2005, as compared to the same periods of fiscal 2004, were primarily due to decreased professional fees for legal, tax and other services, reduced costs of director and officer liability insurance, and a reduction in bad debt expenses.

Other Income and Expense. Interest income for the second quarter of fiscal 2005 increased $0.5 million, or 147.6%, as compared to the same period of fiscal 2004. Interest income for the first six months of fiscal 2005 increased $0.6 million, or 66.1%, as compared to the same period of fiscal 2004. The increases in interest income during the second quarter and first six months of fiscal 2005, as compared to the same periods of fiscal 2004, are attributable to higher cash balances, marginal increases in interest rates and global consolidation of excess cash amounts into higher yielding investments.

Interest expense for the second quarter of fiscal 2005 decreased $0.2 million, or 64.0%, as compared to the same period of fiscal 2004. Interest expense for the first six months of fiscal 2005 decreased $0.6 million, or 66.6%, as compared to the same period of fiscal 2004. While no new debt under financing agreements has been incurred by the Company during the past two fiscal years, scheduled payments continue to be made, decreasing outstanding debt balances and corresponding interest expense.

Other income and expense consists of foreign currency gains and losses, and other non-operating items. Other income for the second quarter of fiscal 2005 was $0.3 million as compared to other expense for the same period of fiscal 2004 of $0.1 million. Other expense for the first six months of fiscal 2005 was $1.0 million as compared to other income for the same period of fiscal 2004 of $2.1 million. These amounts were primarily attributable to foreign currency gains or losses realized by the Company, with minimal other non-operating items incurred during these fiscal periods.

Income Taxes. It is the Company's policy to report income tax expense for interim reporting periods using an estimated annual effective income tax rate. However, the tax effects of significant or unusual items are not considered in the estimated annual effective tax rate. The tax effect of such events is recognized in the interim period in which the event occurs.

The effective tax rate for the second quarter of fiscal 2005 was approximately 34.3% as compared to 42.6% for the same period of fiscal 2004. The effective tax rate for the first six months of fiscal 2005 was approximately 37.0% as compared to 43.0% for the same period of fiscal 2004. The effective tax rate for the second quarter and first six months of fiscal 2005 was primarily impacted by the utilization of foreign tax credits and foreign taxes levied at an effective rate lower than the US Federal tax rate. In addition, the Company's effective tax rate continues to benefit from the extraterritorial income exclusion. The improvement in the effective rate for the second quarter and first six months of fiscal 2005, as compared to the same periods of fiscal 2004, resulted primarily from increased utilization of foreign tax losses, lower than expected state income tax expense and decreased federal tax expense related to municipal interest income.

Each quarter, the Company evaluates its historical operating results as well as its projections for the future to determine the realizability of the deferred tax assets. As of March 31, 2005, the Company had net deferred tax assets of $28.6 million (net of a $51.7 million valuation allowance). The Company's valuation allowance primarily relates to foreign net operating loss carryforwards and, to a lesser extent, foreign tax credit carryforwards and capital loss carryforwards. The valuation allowance is based on the extent to which management believes these carryforwards could expire unused due to the Company's historical or projected losses in certain of its foreign subsidiaries. The Company analyzes the recoverability of its net deferred tax assets at each reporting period. Because unforeseen factors may affect future taxable income, increases or decreases to the valuation reserve may be required in future periods.

The American Jobs Creation Act of 2004 (the "Jobs Act"). On October 22, 2004, the Jobs Act was

enacted, which directly impacts the Company in several areas. The Jobs Act reduces the carryback period of foreign tax credits from two years to one year and extends the carryforward period from five years to ten years.

The Company currently takes advantage of the extraterritorial income exclusion ("EIE") in calculating its federal income tax liability. The Jobs Act repealed the EIE, the benefit of which will be phased out over the next three years, with 80% of the prior benefit allowed in calendar year 2005, 60% in 2006 and 0% allowed in years after 2006.

For tax years beginning after December 31, 2004, the Jobs Act replaced the EIE with the new "manufacturing deduction" that allows a deduction from taxable income of up to 9% of "qualified production activities income," not to exceed taxable income. The deduction is phased in over a six-year period, with the eligible percentage increasing from 3% in 2005 to 9% in 2010. Therefore, the Company expects to benefit from the "manufacturing deduction" beginning in its fiscal year ending September 30, 2006.

The Jobs Act includes a foreign earnings repatriation provision that provides an 85% dividends received deduction for certain dividends received from controlled foreign corporations. The Company currently intends to reinvest foreign earnings indefinitely and accordingly, under APB Opinion No. 23, "Accounting for Income Taxes - Special Areas," has not recorded deferred tax liabilities for unpatriated foreign earnings. However, the Company will continue to analyze the potential tax impact should it elect to repatriate foreign earnings pursuant to the Jobs Act.

Liquidity and Capital Resources

As of March 31, 2005, the Company's principal sources of liquidity consisted of $195.9 million in cash, cash equivalents and marketable securities. In December 2004, the Company announced that its Board of Directors approved a stock repurchase program authorizing the Company, from time to time as market and business conditions warrant, to acquire up to $80 million of its Common Stock, and that it intends to use existing cash and cash equivalents to fund these repurchases. The Company did not make any purchases under its stock repurchase program during the first quarter of fiscal 2005. During the second quarter of fiscal 2005, the Company repurchased 351,064 shares of its Common Stock at an average price of $22.89 per share under this stock repurchase program, with cash paid of $7.2 million by March 31, 2005 and remaining settlements of $0.8 million occurring the first week of April on these repurchased shares. The maximum approximate dollar value of shares that may yet be purchased under the stock repurchase program is $72.0 million as of March 31, 2005. During the month of April 2005, the Company repurchased an additional 402,205 shares of its Common Stock under this stock repurchase program for approximately $8.7 million. The Company may also decide to use cash in the future to acquire new products and services or enhance existing products and services through acquisitions of other companies, product lines, technologies and personnel, or through investments in other companies.

The Company's net cash flows provided by operating activities for the first six months of fiscal 2005 amounted to $30.5 million as compared to $21.5 million provided by operating activities during the same period of fiscal 2004. The increase in operating cash flows in the first six months of fiscal 2005 as compared to the same period of fiscal 2004 resulted primarily from increased net income, as well as changes in billed and accrued receivables and recoverable income taxes offset by decreases in operating cash flows resulting from changes in deferred income taxes.

The Company's net cash flows used in investing activities totaled $75.6 million for the first six months of fiscal 2005 as compared to minimal amounts provided by investing activities during the same period of fiscal 2004. During the first six months of fiscal 2005, the Company increased its holdings of marketable securities by $73.1 million and purchased $2.5 million of software, property and equipment. During the first six months of fiscal 2004, the Company purchased $1.2 million of software, property and equipment and received net proceeds from sales of marketable securities of $1.2 million.

The Company's net cash flows used in financing activities totaled $3.5 million for the first six months of fiscal 2005 as compared to $1.0 million used in financing activities during the same period of fiscal 2004. In the past, an important element of the Company's cash management program was the 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. In the first six months of fiscal 2005, the Company made scheduled payments to the third-party financial institutions totaling $5.0 million, used cash of $7.2 million to purchase shares of Common Stock under the Company's stock repurchase program and received proceeds of $7.9 million from exercises of stock options. In the first six months of fiscal 2004, the Company

made scheduled payments to the third-party financial institutions totaling $9.7 million and received proceeds of $8.6 million from exercises of stock options.

The Company also realized an increase in cash of $1.8 million for the first six months of fiscal 2005 as compared to $2.5 million during the same period of fiscal 2004 pertaining to foreign exchange rate variances.

The Company believes that its existing sources of liquidity, including cash on hand, marketable securities and cash provided by operating activities, will satisfy the Company's projected liquidity requirements for the foreseeable future.

Factors That May Affect the Company's Future Results or the Market Price of the Company's Common Stock

The Company operates in a rapidly changing technological and economic environment that presents numerous risks. Many of these risks are beyond the Company's control and are driven by factors that often cannot be predicted. The following discussion highlights some of these risks.

- The Company's backlog estimate is based on management's assessment of the customer contracts that exist as of the date the estimate is made. Included in the backlog estimate are all software license fees, maintenance fees and services specified in executed contracts to the extent that the Company believes that recognition of the related revenues will occur within the next 12 months. A number of factors could result in actual revenues being less than the amounts reflected in backlog. The Company's customers may attempt to renegotiate or terminate their contracts for a number of reasons, including mergers, changes in their financial condition, or general changes in economic conditions in their industries or geographic locations, 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 backlog will actually generate the specified revenues or that the actual revenues will be generated within a 12-month period.

- In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." This revised accounting standard requires most public entities to record noncash compensation expense related to payment for employee services by equity awards, such as stock options, in their inancial statements commencing in the first annual or interim period that begins after June 15, 2005. In April 2005, the SEC issued a new rule that allows companies to implement the provisions of SFAS No. 123R at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005. The Company does not plan to adopt this revised accounting standard prior to its first quarter of fiscal 2006. The adoption of SFAS No. 123R and the noncash expense that will be recorded thereby will have a negative impact on the Company's results of operations and will reduce the Company's earnings per share. Future grants of stock options will also increase the noncash expenses the Company must record, which will negatively impact the Company's results of operations and earnings per share.

- The Company is subject to income taxes, as well as non-income based taxes, in the United States and in various foreign jurisdictions. Significant judgment is required in determining the Company's worldwide provision for income taxes and other tax liabilities. In addition, the Company has benefitted from, and expects to continue to benefit from, implemented tax-saving strategies. The Company believes that implemented tax-saving strategies comply with applicable tax law. However, taxing authorities could disagree with the Company's positions. If the taxing authorities decided to challenge any of the Company's tax positions and were successful in such challenges, the Company's financial condition and/or results of operations could be adversely affected.

  The Company's tax positions in its income tax returns filed for its 1999 through 2003 tax years are the subject of an ongoing examination by the Internal Revenue Service ("IRS"). The Company believes that its tax positions comply with applicable tax law. This examination has resulted in the IRS issuing proposed adjustments, the majority of which relate to the timing of revenue recognition. The IRS could issue additional proposed adjustments that could adversely affect the Company's financial condition and/or results of operations.

  Three of the Company's foreign subsidiaries are the subject of tax examinations by the local taxing authorities. Other foreign subsidiaries could face challenges from various foreign tax authorities. It is not certain that the local authorities will accept the Company's tax positions. The Company believes its tax positions comply with applicable tax law and intends to vigorously defend its positions. However, differing positions on certain issues could be upheld by foreign tax authorities, which could adversely affect the Company's financial condition and/or results of operations.

- The Company's business is concentrated in the financial services industry, making it susceptible to a downturn in that industry. Consolidation activity among financial institutions has increased in recent years. There are several potential negative effects of increased consolidation activity. Continuing consolidation of financial institutions may decrease the number of existing and potential customers for the Company's products and services. Consolidation of two of the Company's customers could result in reduced revenues if the combined entity were to negotiate greater volume discounts or discontinue use of certain of the Company's products. Additionally, if a non-customer and a customer combine and the combined entity in turn decided to forego future use of the Company's products, the Company's revenues would decline.

- No assurance can be given that operating results will not vary from quarter to quarter, and any 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 technology sector and changing market conditions in the software industry. The Company's stock price may also become volatile, in part, due to developments in the various lawsuits filed against the Company relating to its restatement of prior consolidated financial results.

- The Company has historically derived a majority of its revenues from international operations and anticipates continuing to do so, and is thereby subject to risks of conducting international operations. One of the principal risks associated with international operations is potentially adverse movements of foreign currency exchange rates. The Company's exposures resulting from fluctuations in foreign currency exchange rates may change over time as the Company's business evolves and could have an adverse impact on the Company's financial condition and/or results of operations. The Company has not entered into any derivative instruments or hedging contracts to reduce exposure to adverse foreign currency changes. Other potential risks associated with the Company's international operations include difficulties in staffing and management, reliance on independent distributors, longer payment cycles, potentially unfavorable changes to foreign tax rules, compliance with foreign regulatory requirements, reduced protection of intellectual property rights, variability of foreign economic conditions, changing restrictions imposed by U.S. export laws, and general economic and political conditions in the countries where the Company sells its products and services.

- The Company's BASE24-es product is a significant new product for the Company. If the Company is unable to generate adequate sales of BASE24-es, if market acceptance of BASE24-es is delayed, or if the Company is unable to successfully deploy BASE24-es in production environments, the Company's business, financial condition and/or results of operations could be materially adversely affected.

- Historically, a majority of the Company's total revenues resulted from licensing its BASE24 product line and providing related services and maintenance. Any reduction in demand for, or increase in competition with respect to, the BASE24 product line could have a material adverse effect on the Company's financial condition and/or results of operations.

- The Company has historically derived a substantial portion of its revenues from licensing of software products that operate on Hewlett-Packard ("HP") NonStop servers. Any reduction in demand for HP NonStop servers, or any change in strategy by HP related to support of its NonStop servers, could have a material adverse effect on the Company's financial condition and/or results of operations.

- The Company's software products are complex. They may contain undetected errors or failures when first introduced or as new versions are released. This may result in loss of, or delay in, market acceptance of the Company's products and a corresponding loss of sales or revenues. Customers depend upon the Company's products for mission-critical applications. Software product errors or failures could subject the Company to product liability, as well as performance and warranty claims, which could materially adversely affect the Company's business, financial condition and/or results of operations.

o The Company may acquire new products and services or enhance existing products and services through acquisitions of other companies, product lines, technologies and personnel, or through investments in other companies. Any acquisition or investment may be subject to a number of risks, including diversion of management time and resources, disruption of the Company's ongoing business, difficulties in integrating acquisitions, dilution to existing stockholders if the Company's Common Stock is issued in consideration for an acquisition or investment, the incurring or assuming of indebtedness or other liabilities in connection with an acquisition, and lack of familiarity with new markets, product lines and competition. The failure to manage acquisitions or investments, or successfully integrate acquisitions, could have a material adverse effect on the Company's business, financial condition and/or results of operations.

o To protect its proprietary rights, the Company relies on a combination of contractual provisions, including customer licenses that restrict use of the Company's products, confidentiality agreements and procedures, and trade secret and copyright laws. Despite such efforts, the Company may not be able to adequately protect its proprietary rights, or the Company's competitors may independently develop similar technology, duplicate products or design around any rights the Company believes to be proprietary. This may be particularly true in countries other than the United States because some foreign laws do not protect proprietary rights to the same extent as certain laws of the United States. Any failure or inability of the Company to protect its proprietary rights could materially adversely affect the Company.

o There has been a substantial amount of litigation in the software industry regarding intellectual property rights. The Company anticipates that software product developers and providers of electronic commerce solutions could increasingly be subject to infringement claims, and third parties may claim that the Company's present and future products infringe upon their intellectual property rights. Third parties may also claim, and the Company is aware that at least one third party has claimed on several occasions, that the third party's intellectual property rights are being infringed by the Company's customers' use of a business process method which utilizes the Company's products in conjunction with other products. Any claim against the Company, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays or require the Company to enter into royalty or licensing agreements. Claims against the Company's customers related to the Company's products, whether or not meritorious, could harm the Company's reputation and reduce demand for its products. The Company could also be required to defend or indemnify its customers against such claims. A successful claim by a third party of intellectual property infringement by the Company could compel the Company to enter into costly royalty or license agreements, pay significant damages or even stop selling certain products. Royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all, which could adversely affect the Company's business.

o The Company continues to evaluate the claims made in various lawsuits filed against the Company and certain directors and officers relating to its restatement of prior consolidated financial results. The Company intends to defend these lawsuits vigorously, but cannot predict their outcomes 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 any of these lawsuits or if they were not settled on favorable terms, the judgment or settlement could have a material adverse effect on its financial condition, results of operations and/or cash flows.

o 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. If these policies do not adequately cover expenses and liabilities relating to these lawsuits, the Company's 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 Company's certificate of incorporation authorizes the use of indemnification agreements and the Company enters into such agreements with its directors and certain officers from time to time. These indemnification agreements typically provide for a broader scope of the Company's obligation to indemnify the directors and officers than set forth in the certificate of incorporation. The Company's contractual indemnification obligations under these agreements are in addition to the respective directors' and officers' rights under the certificate of incorporation or under Delaware law.

Additional related suits against the Company may be commenced in the future. The Company will fully analyze such suits and intends to vigorously defend against them. There is a risk that the above-described litigation, as well as any additional suits, could result in substantial costs and divert management attention and resources, which could adversely affect the Company's business, financial condition and/or results of operations.

- From time to time, the Company is involved in litigation relating to claims arising out of its operations. Any claims, with or without merit, could be time-consuming and result in costly litigation. Failure to successfully defend against these claims could result in a material adverse effect on the Company's business, financial condition and/or results of operations.

- Beginning in fiscal 2005, Section 404 of the Sarbanes-Oxley Act of 2002 will require the Company's annual report on Form 10-K to include (1) a report on management's assessment of the effectiveness of the Company's internal controls over financial reporting, (2) a statement that the Company's independent auditor has issued an attestation report on management's assessment of the Company's internal controls over financial reporting, and (3) a report by the Company's independent auditor on their assessment of the effectiveness of the Company's internal controls over financial reporting. There are no assurances that the Company will discover and remediate all deficiencies in its internal controls, including any significant deficiencies or material weaknesses, as it implements new documentation and testing procedures to comply with the Section 404 reporting requirements. If the Company is unable to remediate such deficiencies or is unable to complete the work necessary to properly evaluate its internal controls over financial reporting, there is a risk that management and/or the Company's independent auditor may not be able to conclude that the Company's internal controls over financial reporting are effective. If the Company reports any such deficiencies, negative publicity and/or a decline in the Company's stock price could result.

- New accounting standards, revised interpretations or guidance regarding existing standards, or changes in the Company's business practices could result in future changes to the Company's revenue recognition or other accounting policies. These changes could have a material adverse effect on the Company's business, financial condition and/or results of operations.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to the Company's market risk for the six months ended March 31, 2005. The Company conducts business in all parts of the world and is thereby exposed to market risks related to fluctuations in foreign currency exchange rates. As a general rule, the Company's revenue contracts are denominated in U.S. dollars. Thus, any decline in the value of local foreign currencies against the U.S. dollar results in the Company's products and services being more expensive to a potential foreign customer, and in those instances where the Company's goods and services have already been sold, may result in the receivables being more difficult to collect. The Company at times enters into revenue contracts that are denominated in the country's local currency, principally in Australia, Canada, the United Kingdom and other European countries. This practice serves as a natural hedge to finance the local currency expenses incurred in those locations. The Company has not entered into any foreign currency hedging transactions. The Company does not purchase or hold any derivative financial instruments for the purpose of speculation or arbitrage.

The primary objective of the Company's cash investment policy is to preserve principal without significantly increasing risk. Based on the Company's cash investments and interest rates on these investments at March 31, 2005, a hypothetical ten percent increase or decrease in interest rates would not have a material impact on the Company's financial position, results of operations and/or cash flows.

Item 4. CONTROLS AND PROCEDURES

The Company's management, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this report, to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, completely and accurately, within the time periods specified in SEC rules and forms.

No changes occurred in the Company's internal controls over financial reporting during the second quarter of fiscal 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time the Company is involved in various litigation matters arising in the ordinary course of its business. None of these matters, either individually or in the aggregate, currently is material to the Company except as reported in the Company's annual report on Form 10-K for the year ended September 30, 2004 or in the Company's quarterly report on Form 10-Q for the quarterly period ended December 31, 2004 and there were no material developments to such matters.

Plus Tecnologia

On August 31, 2001, Plus Tecnologia ("Plus") filed a complaint in Circuit Court in the Sixth Judicial Circuit for Pinellas County, Florida against Transaction Systems Architects, Inc., ACI Worldwide Inc., ACI Worldwide (Florida) Inc. n/k/a ACI Worldwide (Texas) LLC, Open Systems Solutions, Inc., the predecessor to ACI Worldwide (Florida) Inc., and ACI Worldwide (Mexico) S.A. de C.V. The complaint alleges breach of contract, breach of non-disclosure agreements, tortious interference with prospective business relationships of Plus and an additional cause of concert of action. Plus has claimed various items of damages, including lost profits in excess of $30,000,000, interest, fees, costs and punitive damages. The Company believes that the complaint is without merit and is vigorously defending this lawsuit.

On April 21, 2005, the Company filed a Motion for Sanctions seeking to dismiss the complaint with prejudice and to impose sanctions against Plus alleging that Plus has engaged in improper, unfair, unethical and fraudulent actions. The Company has alleged that Plus purposefully, knowingly and willfully engaged in this activity to thwart discovery in these proceedings. An evidentiary hearing on the Company's motion has not yet been scheduled. The Company cannot predict the outcome of this matter; however, at this time, the Company's management does not believe that the outcome will have a material adverse impact on the Company's financial condition, results of operations or cash flows.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table provides information regarding the Company's repurchases of its Common Stock during the second quarter of fiscal 2005:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
January 1 through January 31, 2005	-	-	-	$ 80,000,000
February 1 through February 28, 2005	-	-	-	$ 80,000,000
March 1 through March 31, 2005	351,064	$ 22.89	351,064	$ 71,965,000
Total (1)	351,064	$ 22.89	351,064	

(1) On December 13, 2004, the Company announced that its Board of Directors approved a stock repurchase program authorizing the Company, from time to time as market and business conditions warrant, to acquire up to $80 million of its Common Stock, and that it intends to use existing cash and cash equivalents to fund these repurchases. There is no guarantee as to the exact number of shares that will be repurchased by the Company. Repurchased shares would be returned to the status of authorized but unissued shares of Common Stock. In March 2005, the Company's Board of Directors approved a plan under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate the repurchase of shares of Common Stock under the existing stock repurchase program. Under the Company's Rule 10b5-1 plan, the Company has delegated authority over the timing and amount of repurchases to an independent broker who does not have access to inside information about the Company. Rule 10b5-1 allows the Company, through the independent broker, to purchase Company shares at times when the Company ordinarily would not be in the market because of self-imposed trading blackout periods, such as the time immediately preceding the end of the fiscal quarter through a period three business days following the Company's quarterly earnings release. During the second quarter of fiscal 2005, all shares were purchased in open-market transactions.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Stockholders was held on March 8, 2005. The matters voted upon at such meeting and the number of shares cast for, against or withheld, and abstained are as follows:

1. Election of directors to hold office until the next Annual Meeting of Stockholders:

Nominee	For	Withheld
Roger K. Alexander	30,568,338	4,271,003
John D. Curtis	30,616,759	4,222,582
Gregory D. Derkacht	30,671,590	4,167,751
Jim D. Kever	30,645,487	4,193,854
Harlan F. Seymour	30,574,308	4,265,033
John E. Stokely	30,545,181	4,294,160

2. Proposal to amend the Company's Certificate of Incorporation to increase the number of authorized shares of the Company's common stock from 50,000,000 to 70,000,000 shares and otherwise to simplify the capitalization of the Company:

For: 30,976,037 Against: 3,393,031 Abstain: 470,273 Broker Non-Vote: - 0 -

3. Proposal to amend the Company's Certificate of Incorporation to modernize the Certificate of Incorporation and to provide for certain other clarifying amendments:

For: 29,197,356 Against: 5,154,129 Abstain: 487,856 Broker Non-Vote: - 0 -

4. Proposal to adopt the Company's 2005 Equity and Performance Incentive Plan:

For: 23,697,292 Against: 6,236,109 Abstain: 531,861 Broker Non-Vote:4,374,079

5. Proposal to ratify the appointment of KPMG LLP as the Company's independent auditors for fiscal 2005:

For: 29,845,938 Against: 4,540,222 Abstain: 453,181 Broker Non-Vote: - 0 -

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

Exhibit No.		Description
3.1		Amended and Restated Certificate of Incorporation of the Company (filed on January 26, 2005 as Annex A to the Company's Proxy Statement for its 2005 Annual Meeting (File No. 000-25346), and incorporated herein by reference)
10.1		Transaction Systems Architects, Inc. 1999 Employee Stock Purchase Plan, as amended February 20, 2001, March 9, 2004 and March 8, 2005
10.2		Employment Agreement by and between the Company and Philip G. Heasley, dated March 8, 2005 (filed on March 10, 2005 as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-25346) and incorporated herein by reference)
10.3		Stock Option Agreement (under the Company's 2005 Equity and Performance Incentive Plan) by and between the Company and Philip G. Heasley, dated March 9, 2005 (filed on March 10, 2005 as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 000-25346) and incorporated herein by reference)
10.4		Change in Control Severance Compensation Agreement by and between the Company and Philip G. Heasley, dated March 8, 2005 (filed on March 10, 2005 as Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 000-25346) and incorporated herein by reference)
10.5		2005 Equity and Performance Incentive Plan (filed on January 26, 2005 as Annex B to the Company's Proxy Statement for its 2005 Annual Meeting (File No. 000-25346), and incorporated herein by reference)
10.6		Form of Nonqualified Stock Option Agreement - Non-Employee Director (under the Company's 2005 Equity and Performance Incentive Plan) (filed on March 10, 2005 as Exhibit 10.5 to the Company's Current Report on Form 8-K (File No. 000-25346) and incorporated herein by reference)
10.7		Amendment to 2002 Non-Employee Director Stock Option Plan, Amendment No. 1 to Stock Option Agreement (dated as of May 8, 2002) and Amendment No. 1 to Stock Option Agreement (dated as of March 9, 2004) (filed on March 10, 2005 as Exhibit 10.6 to the Company's Current Report on Form 8-K (File No. 000-25346) and incorporated herein by reference)
31.1		Certification of Chief Executive Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2		Certification of Chief Financial Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	*	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
32.2	*	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

---

* This certification is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.

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: May 6, 2005

By: /s/ DAVID R. BANKHEAD

David R. Bankhead
Senior Vice President,
Chief Financial Officer and Treasurer
(principal financial officer)

EXHIBIT INDEX

Exhibit No.		Description
3.1		Amended and Restated Certificate of Incorporation of the Company (filed on January 26, 2005 as Annex A to the Company's Proxy Statement for its 2005 Annual Meeting (File No. 000-25346), and incorporated herein by reference)
10.1		Transaction Systems Architects, Inc. 1999 Employee Stock Purchase Plan, as amended February 20, 2001, March 9, 2004 and March 8, 2005
10.2		Employment Agreement by and between the Company and Philip G. Heasley, dated March 8, 2005 (filed on March 10, 2005 as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-25346) and incorporated herein by reference)
10.3		Stock Option Agreement (under the Company's 2005 Equity and Performance Incentive Plan) by and between the Company and Philip G. Heasley, dated March 9, 2005 (filed on March 10, 2005 as Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 000-25346) and incorporated herein by reference)
10.4		Change in Control Severance Compensation Agreement by and between the Company and Philip G. Heasley, dated March 8, 2005 (filed on March 10, 2005 as Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 000-25346) and incorporated herein by reference)
10.5		2005 Equity and Performance Incentive Plan (filed on January 26, 2005 as Annex B to the Company's Proxy Statement for its 2005 Annual Meeting (File No. 000-25346), and incorporated herein by reference)
10.6		Form of Nonqualified Stock Option Agreement - Non-Employee Director (under the Company's 2005 Equity and Performance Incentive Plan) (filed on March 10, 2005 as Exhibit 10.5 to the Company's Current Report on Form 8-K (File No. 000-25346) and incorporated herein by reference)
10.7		Amendment to 2002 Non-Employee Director Stock Option Plan, Amendment No. 1 to Stock Option Agreement (dated as of May 8, 2002) and Amendment No. 1 to Stock Option Agreement (dated as of March 9, 2004) (filed on March 10, 2005 as Exhibit 10.6 to the Company's Current Report on Form 8-K (File No. 000-25346) and incorporated herein by reference)
31.1		Certification of Chief Executive Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2		Certification of Chief Financial Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	*	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
32.2	*	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

- ------------------------------------

* This certification is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.

Exhibit 10.1

TRANSACTION SYSTEMS ARCHITECTS, INC.

1999 Employee Stock Purchase Plan

as Amended by the Stockholders on

20 February 2001

as Amended by the Stockholders on

9 March 2004

and as Amended by the Compensation Committee on

8 March 2005

TRANSACTION SYSTEMS ARCHITECTS, INC.

1999 Employee Stock Purchase Plan

(as amended and restated by the Stockholders on 20 February 2001
as amended and restated by the Stockholders on 9 March 2004
and as amended by the Compensation Committee on 8 March 2005)

Section 1. Purpose. The purpose of the Transaction Systems Architects, Inc. Employee Stock Purchase Plan (the "Plan") is to provide an opportunity to current employees of Transaction Systems Architects, Inc. (the "Company") or any Participating Subsidiary of the Company to purchase its Common Stock. By encouraging such stock ownership, the Company seeks to attract, retain and motivate such employees to devote their best efforts to the financial success of the Company. It is intended that the Plan qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). In addition, the Plan authorizes the grant of Options and issuance of Common Stock which do not qualify under Section 423 of the Code pursuant to sub-plans adopted by the Committee designed to achieve desired tax or other objectives in particular locations outside the United States.

Section 2. Definitions. For purposes of the Plan, the following terms used herein shall have the following meanings, unless a different meaning is clearly required by the context.

2.01. "Base Pay" shall mean the monthly pay rate of a salaried Employee or the hourly pay rate of an hourly Employee. Base Pay shall not include payments for overtime, allowances, bonuses and other special payments, commissions and other marketing incentive payments.

2.02. "Board of Directors" shall mean the Board of Directors of the Company.

2.03. "Committee" shall mean the committee of the Board of Directors referred to in Section 5 hereof.

2.04. "Common Stock" shall mean the Common Stock of the Company.

2.05. "Employee" shall mean any person, including any officer or employee-director of the Company or any Participating Subsidiary of the Company, who is actively and customarily employed for 20 hours or more per week by the Company or a Participating Subsidiary of the Company.

2.06. "Fair Market Value" shall mean the closing price (last trade) on the date in question, as such price is reported by the National Association of Securities Dealers on the NASDAQ National Market or any successor system for a share of Common Stock.

2.07. "Offering" shall have the meaning described in Section 4.01.

2.08. "Option" shall mean any option to purchase Common Stock granted to an Employee pursuant to this Plan.

2.09. "Participant" shall mean any Employee that is eligible to participate in the Plan in accordance with Section 3 and who elects to participate in the Plan.

2.10 "Participating Subsidiary of the Company" means any Subsidiary of the Company that has been designated by the Board of Directors as eligible to participate in the Plan with respect to its Employees.

2.11. "Participation Period" shall mean the period beginning on 1 April 1999 and ending on 31 July 1999 and each three-month period thereafter during the term of the Plan. The Plan shall be in effect from 1 April 1999, to 30 April 2008. There shall be thirty-two Participation Periods during the term of the Plan.

2.12. "Subsidiary of the Company" means any foreign or U.S. domestic corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Section 3. Eligibility and Participation. The following provisions shall govern the eligibility of Employees to participate in the Plan.

3.01. Eligibility. Any Employee who shall have completed three months of employment with the Company or any Participating Subsidiary of the Company shall be eligible to participate in the Offering as of the first day of the next Participation Period. The Committee may also determine that a designated group of highly compensated Employees are ineligible to participate in the Plan so long as the excluded category fits within the definition of "highly compensated employee" in Code Section 414(q). The Committee may impose restrictions on eligibility and participation of Employees who are officers or directors to facilitate compliance with federal or state securities laws or foreign laws.

3.02. Restrictions on Participation. Notwithstanding any provisions of the Plan to the contrary, no Employee shall be granted an Option under the Plan:

(a) if, immediately after such grant, such Employee would own stock possessing five percent or more of the total combined voting power or value of all classes of stock of the Company or any Subsidiary of the Company, such ownership to be determined by applying the rules of Section 424(d) of the Code and treating stock which the Employee may purchase under outstanding options as stock owned by the Employee; or

(b) which would permit his or her rights to purchase stock under the Plan (and under any other plans of the Company or any Subsidiary of the Company qualifying under Section 423 of the Code) to accrue at a rate which exceeds the lesser of (i) $25,000 or (ii) 10% of the Employee's Base Pay of fair market value of the stock (determined on the basis of the fair market value of the stock at the time such Option is granted) for each calendar year in which such Option is outstanding.

3.03. Commencement of Participation. A Participant may elect to participate by executing the enrollment form prescribed for such purpose by the Committee which enrollment form may include an application for an account with the Company's designated broker. The enrollment form shall be filed with the Committee at any time prior to the first day of the next Participation Period. The Participant shall designate on the enrollment form the percentage of his or her Base Pay which he or she elects to have withheld for the purchase of Common Stock, which may be any whole percentage from 1% to 10%. Once enrolled, a Participant will continue to participate in the Plan for each succeeding Participation Period until he or she terminates participation or ceases to qualify as an Employee.

Section 4. Common Stock Subject to the Plan.

4.01. Number of Shares. The total number of shares of Common Stock for which Options may be granted under this Plan shall not exceed in the aggregate 1,500,000 (one million five hundred thousand) shares of Common Stock. The Plan will be implemented by an Offering of shares of Common Stock (the "Offering"). The Offering shall begin on 1 April 1999 and shall terminate on 30 April 2008.

4.02. Reissuance. The shares of Common Stock that may be subject to Options granted under this Plan may be either authorized and unissued shares of

Common Stock or shares of Common Stock reacquired at any time and now or hereafter held as treasury stock of the Company as the Committee may determine. In the event that any outstanding Option expires or is terminated for any reason, the shares allocable to the unexercised portion of such Option may again be subject to an Option granted under this Plan.

Section 5. Administration of the Plan.

5.01. Committee. The Plan shall be administered by the Compensation Committee of the Board of Directors, or such other committee established by the Board of Directors (the "Committee") consisting of no less than two persons. The Committee shall be appointed from time to time by, and shall serve at the pleasure of, the Board of Directors.

5.02. Interpretation. The Committee shall be authorized (i) to interpret the Plan and decide any matters arising thereunder, and (ii) to adopt such rules, regulations and procedures, not inconsistent with the provisions of the Plan, as it may deem advisable to carry out the purpose of this Plan.

5.03. Finality. The interpretation and construction by the Committee of any provision of the Plan, any Option granted hereunder or any agreement evidencing any such Option shall be final, conclusive and binding upon all parties.

5.04. Voting by Committee Members. Only members of the Committee shall vote on any matter affecting the administration of the Plan or the granting of Options under the Plan.

5.05. Expenses. All expenses and liabilities incurred by the Committee in the administration of the Plan shall be borne by the Company. The Committee may employ attorneys, consultants, accountants or other persons in connection with the administration of the Plan. The Company, and its officers and directors, shall be entitled to rely upon the advice, opinions or valuations of any such persons. No member of the Board of Directors or the Committee shall be liable for any action, determination or interpretation taken or made in good faith with respect to the Plan or any Option granted hereunder.

5.06 Non-U.S. Participation. The Committee may adopt rules or procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures. Without limiting the generality of the foregoing, the Committee is specifically authorized to adopt rules and procedures regarding handling of payroll deductions, payment of interest, conversion of local currency, payroll tax and withholding procedures which vary with local requirements. With respect to any Participating Subsidiary which employs Participants who reside outside of the United States, and notwithstanding anything herein to the contrary, the Committee may in its sole discretion amend or vary the terms of the Plan in order to conform such terms with the requirements of local law or to meet the objectives and purpose of the Plan, and the Committee may, where appropriate, establish one or more sub-plans to reflect such amended or varied provisions which sub-plans may be designed to be outside the scope of Code Section 423. The provisions of such sub-plans may take precedence over other provisions of the Plan, with the exception of Section 4.01, but unless otherwise superseded by the terms of such sub-plan, the provisions of the Plan shall govern the operation of such sub-plan.

5.07 Changing of Percentage. The percentage (i.e. 85%) provided for within Subsections 7.02(iii) and 7.03 herein may be changed by and at the sole discretion of the Committee, without further approval of the Company's Stockholders, to any whole percentage that is not less than 85% and not greater than 100%; provided, however, that the Committee shall provide all Participants with written notice of any such change in advance of the Participation Period in which such change is to first take effect.

Section 6. Payroll Deductions.

6.01. Amount of Deduction. At the time a Participant files his or her enrollment form authorizing payroll deductions pursuant to Section 3.03, he or she shall elect to have deductions made from his or her Base Pay on each payday during the time he or she is a Participant in the Offering.

6.02. Participant's Account; No Interest. All payroll deductions made for a Participant shall be credited to his or her account under the Plan. A Participant may not make any separate cash payment into such account. No interest shall accrue on amounts credited to a Participant's account under the Plan, regardless of whether or not the funds in such account are ultimately used to acquire shares of Common Stock, unless required under local law.

6.03. Changes in Payroll Deductions. A Participant may change the rate of payroll deductions, effective for the next Participation Period, by filing a new enrollment form with the Committee at any time prior to the first day of the

Participation Period for which such change is to be effective. A Participant may also discontinue his or her participation in the Plan by notifying the Committee in accordance with the procedures established by the Committee for such purpose.

6.04. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions unless required under local law.

Section 7. Grant of Option.

7.01. Terms and Conditions. A description of the terms and conditions of the Plan shall be made available to Participants in such form and manner as the Committee shall approve.

7.02. Number of Option Shares. On the first business day of each Participation Period during the term of the Plan, each Participant shall be deemed to have been granted an Option, subject to the limitations of Section 3.02, to purchase a maximum number of shares of Common Stock during the Participation Period equal to the number obtained by multiplying (i) the percentage of the Employee's Base Pay for that Participation Period which he or she has elected to have withheld pursuant to Section 6.01 by (ii) the Employee's Base Pay for that Participation Period and dividing the resulting product by (iii) 85% of the Fair Market Value of one share of Common Stock of the Company on the last business day of that Participation Period provided, however, that in no event shall the total number of shares of Common Stock for which Options are granted exceed the number of shares set forth in Section 4.01. If the total number of shares of Common Stock for which Options would have been granted to Participants pursuant to the preceding sentence would have exceeded the number of shares set forth in Section 4.01 (absent the proviso in the preceding sentence), the Committee shall make a pro rata allocation of the shares of Common Stock available for grant to Participants' Options in such manner as it shall determine, in its sole discretion, to be reasonably practicable, uniform and equitable.

7.03. Option Price. The Option price per share of the Common Stock subject to an Option shall be 85% of the Fair Market Value of one share of Common Stock on the last business day of the applicable Participation Period.

7.04. Interest in Option Stock. A Participant shall have no interest in shares of Common Stock covered by his or her Option until such Option has been exercised.

7.05. Transferability. Neither payroll deductions credited to a Participant's account nor Options granted to a Participant shall be transferable other than by will or the laws of descent and distribution and, during a Participant's lifetime, an Option shall be exercisable only by the Participant.

7.06 Tax Withholding. In the event that the Company or any Subsidiary of the Company is required to withhold any Federal, state, local or foreign taxes in respect of any compensation income realized by the Participant as a result of any "disqualifying disposition" of any shares of Common Stock acquired upon exercise of an Option granted hereunder, the Company or such Subsidiary of the Company shall deduct from any payments of any kind otherwise due to such Participant the aggregate amount of such Federal, state, local or foreign taxes required to be so withheld or, if such payments are insufficient to satisfy such Federal, state, local or foreign taxes, such Participant will be required to pay to the Company or such Subsidiary of the Company, or make other arrangements satisfactory to the Company or such Subsidiary of the Company regarding payment to the Company or such Subsidiary of the Company of, the aggregate amount of any such taxes. All matters with respect to the total amount of taxes to be withheld in respect of any such compensation income shall be determined by the Committee in its sole discretion. Subject to approval by the Committee, a Participant may elect to have such tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Common Stock to be acquired upon exercise of an Option, a number of shares of Common Stock with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due, or (ii) transferring to the Company shares of Common Stock owned by the Participant with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due.

Section 8. Exercise of Options.

8.01. Automatic Exercise. Unless a Participant gives written notice to the Company of withdrawal pursuant to Section 9.01, his or her Option to acquire Common Stock with payroll deductions credited to his or her account for any Participation Period will be deemed to have been exercised automatically on the last business day of the applicable Participation Period for the purchase of the number of full shares of Common Stock which the accumulated payroll deductions credited to his or her account at that time will purchase at the applicable

Option price (but not in excess of the number of shares of Common Stock for which Options have been granted to the Employee pursuant to Section 7.02), and any excess credited to his or her account at that time will be carried forward to the next Participation Period.

8.02. Fractional Shares. Fractional shares will not be issued under the Plan and any accumulated payroll deductions which would have been used to purchase fractional shares will be carried over to the next following Participation Period.

8.03. Delivery of Stock. As soon as reasonably practicable after each Participation Period, the Company will deliver to the Participant's account with the Company's designated broker, in such Participant's name, the shares of Common Stock purchased upon exercise of such Participant's Option. It is a condition of participation in the Plan that each Participant maintain an account with the broker designated by the Company. The Company reserves the right to change its designated broker from time to time in its sole discretion.

Section 9. Withdrawal.

9.01. In General. A Participant may withdraw payroll deductions credited to his or her account for a Participation Period under the Plan at any time prior to the last business day of such Participation Period by giving written notice to the Committee. As soon as reasonably practicable after receipt by the Committee of his or her notice of withdrawal, the payroll deductions credited to the Participant's account for such Participation Period will be paid to him or her without interest (except to the extent required by local law), and no further payroll deductions will be made from his or her Base Pay for such Participation Period.

9.02. Cessation of Employee Status. In the event a Participant shall cease to be an Employee during a Participation Period for any reason, other than as a result of his or her death, the payroll deductions credited to his or her account for such Participation Period will be returned to him or her without interest (except to the extent required by local law) as soon as reasonably practicable thereafter.

9.03. Termination Due to Death. In the event a Participant shall cease to be an Employee during a Participation Period by reason of his or her death, his or her legal representative shall have the right to elect, by written notice to the Committee prior to the last business day of the Participation Period:

(a) to withdraw all of the payroll deductions credited to the Participant's account under the Plan for such Participation Period without interest (except to the extent required by local law), or

(b) to exercise the Participant's Option for such Participation Period with any excess in the Participant's account after exercise of the Option to be returned to the Participant's legal representative.

In the event that no such written notice of election is duly and timely received by the Committee, the Participant's legal representative shall automatically be deemed to have elected, pursuant to clause (b) above, to exercise the Participant's Option.

Section 10. Adjustments.

10.01. Changes In Capitalization. In the event that the outstanding shares of the Company's Common Stock shall be increased or decreased or changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation, effected without the receipt of consideration by the Company, through reorganization, merger or consolidation, recapitalization, reclassification, stock split, reverse stock split, split-up, combination or exchange of shares or declaration of any dividends payable in Common Stock, the Board of Directors shall appropriately adjust, subject to any required action by the stockholders of the Company, (i) the number of shares of Common Stock (and the Option price per share) subject to the unexercised portion of any outstanding Option (to the nearest possible full share), provided, however, that the limitations of Section 424 of the Code shall apply with respect to such adjustments and (ii) the number of shares of Common Stock for which Options may be granted under the Plan, as set forth in Section 4.01 hereof, and such adjustments shall be final, conclusive and binding for all purposes of the Plan. Except as expressly provided herein, no issuance by the Company of shares of stock of any class shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option.

10.02. Acquisition, Merger, Sale of Assets, Dissolution or Liquidation. Notwithstanding the foregoing, in the event of (i) any offer or proposal to holders of the Company's Common Stock relating to the acquisition of their shares, including, without limitation, through purchase, merger or otherwise, or

(ii) any transaction generally relating to the acquisition of substantially all of the assets or business of the Company, or (iii) the dissolution or liquidation of the Company, the Board of Directors may make such adjustment as it deems equitable in respect of outstanding Options (and in respect of the shares of Common Stock for which Options may be granted under the Plan), including, without limitation, the revision, cancellation, or termination of any outstanding Options, or the change, conversion or exchange of the shares of the Company's Common Stock under outstanding Options (and of the shares of the Company's Common Stock for which Options may be granted under the Plan) into or for securities or other property of another corporation. Any such adjustments by the Board of Directors shall be final, conclusive and binding for all purposes of the Plan.

Section 11. Effect of the Plan on Employment Relationship. Neither this Plan nor any Option granted hereunder to a Participant shall be construed as conferring upon such Participant any right to continue in the employ of the Company or any Subsidiary of the Company as the case may be, or limit in any respect the right of the Company or any Subsidiary of the Company to terminate such Participant's employment with the Company or any Subsidiary of the Company, as the case may be, at any time.

Section 12. Amendment of the Plan. The Board of Directors may amend the Plan from time to time as it deems desirable in its sole discretion without approval of the stockholders of the Company, except to the extent stockholder approval is required by Rule 16b-3 of the Securities Exchange Act of 1934, as amended, applicable NASDAQ National Market or stock exchange rules, applicable provisions of the Code, or other applicable laws or regulations.

Section 13. Termination of the Plan. The Board of Directors may terminate the Plan at any time in its sole discretion. No Option may be granted hereunder after termination of the Plan. The termination or amendment of the Plan shall not alter or impair any rights or obligations under any Option theretofore granted under the Plan in any material adverse way without the consent of the affected Participant.

Section 14. Governing Law. The Plan and any and all Option agreements executed in connection with the Plan shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to conflict of laws principles.

Section 15. No Strict Construction. No rule of strict construction shall be applied against the Company, the Committee, or any other person in the interpretation of any of the terms of the Plan, any Option agreement, any Option granted under the Plan, or any rule, regulation or procedure established by the Committee.

Section 16. Successors. This Plan is binding on and will inure to the benefit of any successor to the Company, whether by way of merger, consolidation, purchase, or otherwise.

Section 17. Severability. If any provision of the Plan or an Option agreement shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Plan or such agreement, and the Plan and such agreement shall each be construed and enforced as if the invalid provisions had never been set forth therein.

Section 18. Plan Provisions Control. Except as otherwise provided in Section 5.06, the terms of the Plan govern all Options granted under the Plan, and in no event will any Option be granted under the Plan which is contrary to any of the provisions of the Plan. In the event any provision of any Option granted under the Plan shall conflict with any term in the Plan as constituted on the grant date of such Option, the term in the Plan as constituted on the grant date of such Option shall control except as otherwise provided in Section 5.06.

Section 19. Headings. The headings used in the Plan are for convenience only, do not constitute a part of the Plan, and shall not be deemed to limit, characterize, or affect in any way any provisions of the Plan, and all provisions of the Plan shall be construed as if no captions had been used in the Plan.

Section 20. Effective Date of the Plan. The Plan shall be submitted to the stockholders of the Company for approval and ratification at the next regular or special meeting thereof to be held after 1 January 1999. Unless at such meeting the Plan is approved and ratified by the stockholders of the Company, in the manner provided by the Company's By-Laws, then and in such event, the Plan shall become null and void and of no further force and effect. Subject to the immediately preceding sentence, the Plan shall be effective as of 1 April 1999. The Plan shall continue in effect until 30 April 2008 unless sooner terminated under Section 13.

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Philip G. Heasley, certify that:

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

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

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

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

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its onsolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2005

By: /s/ PHILIP G. HEASLEY

Philip G. Heasley
President, Chief Executive Officer
and Director

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David R. Bankhead, certify that:

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

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

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

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

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

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2005

By: /s/ DAVID R. BANKHEAD

David R. Bankhead
Senior Vice President,
Chief Financial Officer and Treasurer

Exhibit 32.1

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 fiscal quarter ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Philip G. Heasley, 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: May 6, 2005

By: /s/ PHILIP G. HEASLEY

Philip G. Heasley
President, Chief Executive Officer and Director

Exhibit 32.2

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 fiscal quarter ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David R. Bankhead, 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: May 6, 2005

By: /s/ DAVID R. BANKHEAD

David R. Bankhead
Senior Vice President,
Chief Financial Officer and Treasurer