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, 2002

Commission File Number 0-25346

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

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

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

Yes _x_ No ___

The number of shares of the issuer's Class A Common Stock, par value $.005 per share, outstanding as of May 7, 2002 was 35,362,193 (excluding 1,476,145 shares held as Treasury Stock, and including 490,973 Exchangeable Shares of TSA Exchangeco Limited which can be exchanged on a one-for-one basis for shares of the issuer's Class A Common Stock and 15,412 options to purchase shares of the issuer's Class A Common Stock at an exercise price of one cent per share issued to MessagingDirect Ltd. shareholders).

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## PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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TRANSACTION SYSTEMS ARCHITECTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited and in thousands, except share amounts)

| | March 31, 2002 | September 30, 2001 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 47,305 | $ 32,252 |
| Marketable securities | 7,191 | 2,650 |
| Billed receivables, net of allowances of $6,889 and $8,700, respectively | 49,259 | 50,277 |
| Accrued receivables | 38,560 | 50,932 |
| Prepaid income taxes | - | 1,911 |
| Deferred income taxes | 9,362 | 8,700 |
| Other | 10,068 | 10,990 |
| Total current assets | 161,745 | 157,712 |
| Property and equipment, net | 13,560 | 14,580 |
| Software, net | 17,662 | 27,954 |
| Goodwill, net | 49,885 | 82,327 |
| Long-term accrued receivables | 20,287 | 24,916 |
| Investments and notes receivable | 1,227 | 1,309 |
| Deferred income taxes | 17,906 | 13,627 |
| Other | 3,944 | 5,028 |
| Total assets | $ 286,216 | $ 327,453 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 543 | $ 12,559 |
| Accounts payable | 7,196 | 13,542 |
| Accrued employee compensation | 8,962 | 9,030 |
| Income taxes payable | 926 | - |
| Accrued liabilities | 18,804 | 23,369 |
| Deferred revenue | 39,863 | 35,857 |
| Total current liabilities | 76,294 | 94,357 |
| Long-term debt | 1,359 | 761 |
| Long-term deferred revenue | 10,173 | 12,610 |
| Other | 1,008 | 1,057 |
| Total liabilities | 88,834 | 108,785 |
| Stockholders' equity: | | |
| Class A Common Stock, 36,803,193 and 36,687,658 shares issued and outstanding, respectively | 184 | 184 |
| Additional paid-in capital | 223,244 | 222,501 |
| Retained earnings | 18,063 | 42,016 |
| Treasury stock, 1,476,145 shares | (35,258) | (35,258) |
| Accumulated other comprehensive loss | (8,851) | (10,775) |
| Total stockholders' equity | 197,382 | 218,668 |
| Total liabilities and stockholders' equity | $ 286,216 | $ 327,453 |

See notes to condensed consolidated financial statements.

TRANSACTION SYSTEMS ARCHITECTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

| | Three Months Ended March 31, 2002 | Three Months Ended March 31, 2001 | Six Months Ended March 31, 2002 | Six Months Ended March 31, 2001 |
|---|---|---|---|---|
| Revenues: | | | | |
| Software license fees | $ 35,598 | $ 45,159 | $ 69,919 | $ 87,626 |
| Maintenance fees | 19,626 | 17,420 | 39,104 | 33,385 |
| Services | 10,449 | 13,913 | 21,960 | 30,117 |
| Total revenues | 65,673 | 76,492 | 130,983 | 151,128 |
| Expenses: | | | | |
| Cost of software license fees | 9,150 | 11,233 | 20,145 | 22,824 |
| Cost of maintenance and services | 15,772 | 18,011 | 31,540 | 36,722 |
| Research and development | 8,918 | 10,722 | 17,967 | 20,791 |
| Selling and marketing | 16,484 | 18,247 | 33,106 | 37,942 |
| General and administrative | 13,647 | 16,050 | 27,284 | 32,177 |
| Amortization of goodwill | - | 3,413 | - | 5,780 |
| Total expenses | 63,971 | 77,676 | 130,042 | 156,236 |
| Operating income (loss) | 1,702 | (1,184) | 941 | (5,108) |
| Other income (expense): | | | | |
| Interest income, net | 729 | (33) | 1,649 | 172 |
| Other | 4,339 | (988) | 333 | (15,026) |
| Total other income (expense) | 5,068 | (1,021) | 1,982 | (14,854) |
| Income (loss) before income taxes | 6,770 | (2,205) | 2,923 | (19,962) |
| Income tax benefit (provision) | (2,220) | (1,399) | (1,173) | 2,006 |
| Income (loss) from continuing operations before cumulative effect of accounting change | 4,550 | (3,604) | 1,750 | (17,956) |
| Cumulative effect of accounting change | - | - | (25,704) | - |
| Net income (loss) | $ 4,550 | $ (3,604) | $ (23,954) | $ (17,956) |
| Earnings per share information: | | | | |
| Weighted average shares outstanding: | | | | |
| Basic | 35,299 | 34,556 | 35,277 | 33,105 |
| Diluted | 35,531 | 34,556 | 35,496 | 33,105 |
| Basic earnings per share: | | | | |
| Continuing operations | $ 0.13 | $ (0.10) | $ 0.05 | $ (0.54) |
| Cumulative effect of accounting change | - | - | (0.73) | - |
| Net income (loss) | $ 0.13 | $ (0.10) | $ (0.68) | $ (0.54) |
| Diluted earnings per share: | | | | |
| Continuing operations | $ 0.13 | $ (0.10) | $ 0.05 | $ (0.54) |
| Cumulative effect of accounting change | - | - | (0.72) | - |
| Net income (loss) | $ 0.13 | $ (0.10) | $ (0.67) | $ (0.54) |

See notes to condensed consolidated financial statements.

TRANSACTION SYSTEMS ARCHITECTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

| | Six Months Ended March 31, 2002 | Six Months Ended March 31, 2001 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (23,954) | $ (17,956) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 3,434 | 4,132 |
| Amortization | 8,850 | 13,142 |
| Non-cash and other charges | (1,223) | 14,311 |
| Goodwill impairment | 31,885 | - |
| Changes in operating assets and liabilities: | | |
| Billed and accrued receivables, net | 15,806 | (1,406) |
| Other current and noncurrent assets | (5,534) | (8,517) |
| Accounts payable | (6,288) | (6,279) |
| Deferred revenue | 5,294 | 909 |
| Other current and noncurrent liabilities | (2,833) | 663 |
| Net cash provided by (used in) operating activities | 25,437 | (1,001) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (2,758) | (1,539) |
| Additions to software | (1,282) | (3,636) |
| Net proceeds from sale of business | 4,951 | - |
| Acquisition of business, net of cash received | - | 587 |
| Additions to investments and notes receivable | (100) | (1,420) |
| Net cash provided by (used in) investing activities | 811 | (6,008) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of Class A Common Stock | 613 | 811 |
| Proceeds from exercise of stock options | 69 | 152 |
| Line of credit borrowings (payments) | (12,000) | 3,313 |
| Borrowings of long-term debt | 582 | 436 |
| Net cash provided by (used in) financing activities | (10,736) | 4,712 |
| Effect of exchange rate fluctuations on cash | (459) | (354) |
| Net increase (decrease) in cash and cash equivalents | 15,053 | (2,651) |
| Cash and cash equivalents, beginning of period | 32,252 | 23,400 |
| Cash and cash equivalents, end of period | $ 47,305 | $ 20,749 |

See notes to condensed consolidated financial statements.

1. Consolidated Financial Statements

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

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

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

2. Revenue Recognition

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

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

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

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

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

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

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

The present value of Recognized-Up-Front MLFs recognized during the three months ended March 31, 2002 and 2001 totaled approximately $2.8 million and $2.8 million, respectively. The present value of Recognized-Up-Front MLFs recognized during the six months ended March 31, 2002 and 2001 totaled approximately $6.9 million and $11.9 million, respectively. The discount rates used to determine the present value of these software license fees, representing the Company's incremental borrowing rates, ranged from 7.00% to 9.25% during the six months ended March 31, 2002, and from 9.50% to 11.00% during the six months ended March 31, 2001. Recognized-Up-Front MLFs that have been recognized as software license fee revenues by the Company, but not yet billed, are reflected in accrued receivables in the accompanying condensed consolidated balance sheets.

3. Line of Credit Facilities

The Company has a $25.0 million bank line of credit agreement with a large United States bank secured by certain trade receivables. This credit agreement provides that the Company must satisfy certain specified earnings, working capital and minimum tangible net worth requirements, as defined, and places restrictions on the Company's ability to, among other things, sell assets, incur debt, pay dividends, participate in mergers and make investments or guarantees. The Company also has a line of credit agreement with a large foreign bank in the amount of 3.0 million British Sterling, which translates to approximately $4.3 million as of March 31, 2002. The foreign credit agreement requires the Company to maintain minimum tangible net worth within the Company's wholly-owned subsidiary, ACI Worldwide (EMEA) Ltd. The Company is in compliance with all debt covenants as of March 31, 2002.

Interest on the U.S. credit facility accrues at an annual rate equal to either the bank's prime rate less .25% or the LIBOR rate plus 1.75% and is payable monthly. Interest on the foreign credit facility accrues at an annual rate of 1% above the bank's "base rate." The Company recorded interest expense of $36,000 and $527,000 during the three months ended March 31, 2002 and 2001, respectively, and $164,000 and $1,020,000 during the six months ended March 31, 2002 and 2001, respectively, related to its line of credit facilities. The carrying amounts of the Company's credit facilities approximate fair value due to their variable interest rates. The Company has no line of credit borrowings outstanding as of March 31, 2002. The entire $29.3 million is available to the Company for future borrowings. The U.S. credit facility expires in June 2002 and the foreign credit facility expires in October 2002. The Company plans to renew both lines of credit with financial terms similar to those currently in place.

4. Gain on Sale of Subsidiary

On February 14, 2002, the Company sold Regency Systems, Inc. ("Regency"), which sells voice and Internet banking solutions to small and mid-sized banks, to S1 Corporation ("S1"). Under the terms of the transaction, S1 acquired Regency for 400,561 unregistered shares of S1 common stock and $6.0 million in cash ($5.0 million net of expenses associated with the sale). S1 shares are included in marketable securities and recorded at current market value. Pursuant to the Stock Purchase Agreement, S1 was required to file a registration statement on Form S-3 with the Securities and Exchange Commission ("SEC") to register the resale of these shares. In the event that the fair value of the S1 common stock received (valued at the average closing price per share for S1 common stock for the last 10 trading days immediately preceding the date the registration statement is declared effective by the SEC) is less than $5.1 million, or $12.73 per share, then S1 shall owe the Company, within five trading days, the difference between $5.1 million and the fair value in cash, S1 common stock, or any combination thereof, at S1's option. In connection with this transaction, the Company recorded a gain of $4.1 million.

5. Non-Cash and Other Charges

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

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

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

At September 30, 2001, the remaining accrued liability associated with the restructuring and other charges described above was $4.0 million and consisted of $1.4 million in lease obligations, $1.5 million in termination benefits and $1.1 million in other restructuring charges. During the first six months of fiscal 2002, the Company reduced the liability related to these items by approximately $2.0 million. The Company expects approximately $0.9 million of the remaining $2.0 million liability to be paid during the remainder of fiscal 2002. The remaining portion, consisting primarily of lease obligations, will be paid during fiscal 2003.

6. Goodwill and Other Intangible Assets

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

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

Effective October 1, 2001, the Company adopted SFAS No. 142 and hired an independent consultant to perform valuations of the Company's reporting units that contain goodwill. Completion of the initial step of testing indicated that the carrying value of one reporting unit exceeded its estimated fair value. Fair value was determined using a discounted cash flow methodology. Thereafter, given the indication of a potential impairment, the independent consultant completed step two of the test. Based on that analysis, an impairment loss of $25.7 million (net of income tax benefit of $6.2 million), or $0.73 per basic and diluted share, was recognized during the first quarter of fiscal 2002 as a cumulative effect of accounting change. The impairment within this reporting unit resulted primarily from overall softness in discretionary information technology spending and slower than expected adoption of secure document delivery technology.

Changes in the carrying amount of goodwill attributable to each reportable operating segment with goodwill balances for the first six months of fiscal 2002 are as follows (in thousands):

| | ACI Worldwide | Insession Technologies | MessagingDirect Ltd. |
|---|---|---|---|
| Balance, September 30, 2001 | $ 14,609 | $ 35,353 | $ 32,365 |
| Foreign currency translation adjustment | (77) | - | (480) |
| Impairment adjustment | - | - | (31,885) |
| Balance, March 31, 2002 | $ 14,532 | $ 35,353 | $ - |

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

| | Mar. 31, 2002 | Sept. 30, 2001 |
|---|---|---|
| Internally-developed software | $ 19,757 | $ 25,008 |
| Purchased software | 53,534 | 53,720 |
| | 73,291 | 78,728 |
| Less: accumulated amortization | (55,629) | (50,774) |

| | | |
|---|---|---|
| Software, net | $ 17,662 | $ 27,954 |

Software amortization expense recorded in the three and six months ended March 31, 2002 was $4,224,000 and $7,700,000, respectively. Estimated amortization expense for the remainder of fiscal 2002 and each of the five succeeding fiscal years is as follows (in thousands):

| | |
|---|---|
| 2002 | $4,120 |
| 2003 | 7,688 |
| 2004 | 4,125 |
| 2005 | 1,428 |
| 2006 | 301 |
| 2007 | - |

Actual results of operations for the three and six months ended March 31, 2002, and results of operations for the three and six months ended March 31, 2001, shown as if the Company had applied the nonamortization provisions of SFAS No. 142 during that period, are as follows (in thousands, except per share amounts):

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Net income (loss), as reported | $ 4,550 | $ (3,604) | $ (23,954) | $ (17,956) |
| Add back: cumulative effect of accounting change | - | - | 25,704 | - |
| Income (loss) from continuing operations | 4,550 | (3,604) | 1,750 | (17,956) |
| Add back: goodwill amortization | - | 3,413 | - | 5,780 |
| Adjusted net income (loss) | $ 4,550 | $ (191) | $ 1,750 | $ (12,176) |
| Basic earnings per share: | | | | |
| Net income (loss), as reported | $ 0.13 | $ (0.10) | $ (0.68) | $ (0.54) |
| Cumulative effect of accounting change | - | - | 0.73 | - |
| Net loss from continuing operations | 0.13 | (0.10) | (0.05) | (0.54) |
| Goodwill amortization | - | 0.10 | - | 0.17 |
| Adjusted net income (loss) | $ 0.13 | $ 0.00 | $ (0.05) | $ (0.37) |
| Diluted earnings per share: | | | | |
| Net income (loss), as reported | $ 0.13 | $ (0.10) | $ (0.67) | $ (0.54) |
| Cumulative effect of accounting change | - | - | 0.72 | - |
| Income (loss) from continuing operations | 0.13 | (0.10) | (0.05) | (0.54) |
| Goodwill amortization | - | 0.10 | - | 0.17 |
| Adjusted net income (loss) | $ 0.13 | $ 0.00 | $ (0.05) | $ (0.37) |

7. Common Stock and Earnings Per Share

Exchangeable shares and options received by shareholders of MessagingDirect Ltd. ("MDL") that have not yet been converted into TSA Class A Common Stock are included in Class A Common Stock for presentation purposes on the September 30, 2001 and March 31, 2002 condensed 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, 2002 and 2001. Exchangeable shares and MDL options included in Class A Common Stock totaled 503,267 shares and 15,459 options as of March 31, 2002, and 650,146 shares and 20,040 options as of September 30, 2001.

EPS has been computed in accordance with SFAS No. 128, "Earnings Per Share." Basic EPS is calculated by dividing net income available to common stockholders (the numerator) by the weighted average number of

common shares
outstanding during the period (the denominator). Diluted EPS is computed by dividing net income available to common stockholders, adjusted for the effect of any outstanding dilutive securities (the numerator), by the weighted average number of common shares outstanding, adjusted for the dilutive effect of outstanding dilutive securities (the denominator). There is no difference in the numerator used for basic and diluted EPS computations. The differences between the basic and diluted EPS denominators for the three and six months ended March 31, 2002, which amounted to approximately 232,000 and 219,000 shares, respectively, were due to the dilutive effect of the Company's outstanding stock options using the treasury stock method. Weighted average shares from stock options of 1,680,000 and 1,666,000 were excluded from the computation of diluted EPS for the three and six months ended March 31, 2002, respectively, because the exercise prices of the stock options were greater than the average market price of the Company's common shares. For the three and six months ended March 31, 2001, basic and diluted EPS are the same, as any outstanding dilutive securities were antidilutive due to the net loss from continuing operations in both periods.

8. Comprehensive Income/Loss

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Net income (loss) | $ 4,550 | $ (3,604) | $ (23,954) | $ (17,956) |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | 472 | (5,112) | (48) | (4,573) |
| Change in unrealized loss on investments | (378) | 842 | 1,972 | 2,645 |
| Comprehensive income (loss) | $ 4,644 | $ (7,874) | $ (22,030) | $ (19,884) |

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

| | Foreign Currency Translation Adjustments | Unrealized Investment Holding Loss | Accumulated Other Comprehensive Income |
|---|---|---|---|
| Balance, September 30, 2001 | $ (8,425) | $ (2,350) | $ (10,775) |
| Fiscal 2002 year-to-date activity | (48) | (928) | (976) |
| Reclassification adjustment for loss included in net loss | - | 2,900 | 2,900 |
| Balance, March 31, 2002 | $ (8,473) | $ (378) | $ (8,851) |

9. Segment Information

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

The Company's chief operating decision makers review business unit financial information, presented on a consolidated basis, accompanied by disaggregated information about revenues and operating income (loss) by business unit. The Company does not track assets by business unit. No single customer accounted for more than

10% of the Company's consolidated revenue during the three and six months ended March 31, 2002 and 2001. The following are revenues and operating income (loss) for these business units for the periods indicated (in thousands):

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Revenues (1): | | | | |
| ACI Worldwide | $ 46,353 | $ 57,776 | $ 92,259 | $ 116,192 |
| Insession Technologies | 9,304 | 10,860 | 18,619 | 20,144 |
| IntraNet, Inc. | 10,016 | 7,650 | 20,105 | 14,258 |
| Health Payment Systems (HHPC only) | - | 206 | - | 534 |
| | $ 65,673 | $ 76,492 | $ 130,983 | $ 151,128 |
| Operating income (loss) (1): | | | | |
| ACI Worldwide | $ (555) | $ 1,657 | $ (4,480) | $ 2,779 |
| Insession Technologies | 886 | (353) | 2,419 | (1,110) |
| IntraNet, Inc. | 1,371 | (1,737) | 3,002 | (4,634) |
| Health Payment Systems (HHPC only) | - | (751) | - | (2,143) |
| | $ 1,702 | $ (1,184) | $ 941 | $ (5,108) |

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

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Revenues: | | | | |
| United States | $ 28,445 | $ 31,928 | $ 57,303 | $ 63,933 |
| Other Americas | 9,033 | 11,256 | 18,394 | 20,242 |
| Total Americas | 37,478 | 43,184 | 75,697 | 84,175 |
| EMEA | 18,594 | 24,793 | 38,374 | 51,783 |
| Asia/Pacific | 9,601 | 8,515 | 16,912 | 15,170 |
| | $ 65,673 | $ 76,492 | $ 130,983 | $ 151,128 |

| | March 31, 2002 | Sept. 30, 2001 |
|---|---|---|
| Long-lived assets: | | |
| United States | $ 69,611 | $ 78,809 |
| Other Americas | 5,514 | 22,491 |
| Total Americas | 75,125 | 101,300 |
| EMEA | 10,375 | 28,960 |
| Asia/Pacific | 778 | 938 |
| | $ 86,278 | $ 131,198 |

## 10. Stock-Based Compensation

On August 1, 2001, the Company announced a voluntary stock option exchange program (the "Exchange Program") offering to exchange all outstanding options to purchase shares of the Company's Class A Common Stock ("Common Stock") granted under the 1994 Stock Option Plan, 1996 Stock Option Plan and 1999 Stock Option Plan held by eligible employees or eligible directors for new options under the same option plans. The Exchange Program required that any person tendering an option grant for exchange would be required to also tender all subsequent option grants with a lower exercise price received by that person during the six months immediately prior to the date the options accepted for exchange are cancelled. Options to acquire a total of 3,089,100 shares of Common Stock with exercise prices ranging from $2.50 to $45.00 were eligible to be exchanged under the Exchange Program. The offer expired on August 28, 2001, and the Company canceled 1,946,550 shares tendered by 578 employees. As a result of the Exchange Program, the Company granted replacement stock options to acquire 1,823,000 shares of Common Stock at an exercise price of $10.04. The difference between the number of shares cancelled and the number of shares granted relates to options cancelled by employees who terminated their employment with the Company between the cancellation date and the regrant date. The exercise price of the replacement options was the fair market value of the Common Stock on the grant date of the new options, which was March 4, 2002 (a date at least six months and one day after the date of cancellation). The new shares have a vesting schedule of 1/18 per month beginning on the grant date of the new options, except for options tendered by executive officers under the 1994 Stock Option Plan, which vest 25% annually on each anniversary of the grant date of the new options. The Exchange Program was designed to comply with the Financial Accounting Standards Board Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," and is not expected to result in any additional compensation charges or variable-award accounting.

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

### Overview

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

### Business Segments

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

The following are revenues and operating income (loss) for these business units for the three and six months ended March 31, 2002 and 2001 (in thousands):

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Revenues (1): | | | | |
| ACI Worldwide | $ 46,353 | $ 57,776 | $ 92,259 | $ 116,192 |
| Insession Technologies | 9,304 | 10,860 | 18,619 | 20,144 |
| IntraNet, Inc. | 10,016 | 7,650 | 20,105 | 14,258 |
| Health Payment Systems (HHPC only) | - | 206 | - | 534 |
| | $ 65,673 | $ 76,492 | $ 130,983 | $ 151,128 |
| Operating income (loss) (1): | | | | |
| ACI Worldwide | $ (555) | $ 1,657 | $ (4,480) | $ 2,779 |
| Insession Technologies | 886 | (353) | 2,419 | (1,110) |
| IntraNet, Inc. | 1,371 | (1,737) | 3,002 | (4,634) |
| Health Payment Systems (HHPC only) | - | (751) | - | (2,143) |
| | $ 1,702 | $ (1,184) | $ 941 | $ (5,108) |

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

### Backlog

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

The following table sets forth the Company's recurring and non-recurring revenue backlog, by business unit, as of March 31, 2002 and 2001 (in thousands):

| | Recurring Revenue Backlog | | Non-Recurring Revenue Backlog | |
|---|---|---|---|---|
| | March 31, | | March 31, | |
| | 2002 | 2001 | 2002 | 2001 |
| ACI Worldwide | $ 90,500 | $ 97,500 | $ 19,500 | $ 39,100 |
| Insession Technologies | 15,000 | 17,200 | 4,700 | 3,800 |
| IntraNet, Inc. | 17,500 | 17,000 | 22,500 | 12,500 |
| Health Payment Systems (HHPC only) | - | - | - | - |
| | $ 123,000 | $ 131,700 | $ 46,700 | $ 55,400 |

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

## Results of Operations

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

| | Three Months Ended March 31, | | | | Six Months Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2002 | | 2001 | | 2002 | | 2001 | |
| | Amount | % of Revenue | Amount | % of Revenue | Amount | % of Revenue | Amount | % of Revenue |
| Revenues: | | | | | | | | |
| ILFs and PUFs | $ 21,457 | 32.7 % | $ 30,422 | 39.8 % | $ 39,526 | 30.2 % | $ 50,521 | 33.4 % |
| MLFs (other than Recognized-Up-Front MLFs) | 11,336 | 17.2 | 11,974 | 15.6 | 23,543 | 18.0 | 25,218 | 16.7 |
| Recognized-Up-Front MLFs | 2,805 | 4.3 | 2,763 | 3.6 | 6,850 | 5.2 | 11,887 | 7.9 |
| Total software license fees | 35,598 | 54.2 | 45,159 | 59.0 | 69,919 | 53.4 | 87,626 | 58.0 |
| Maintenance fees | 19,626 | 29.9 | 17,420 | 22.8 | 39,104 | 29.8 | 33,385 | 22.1 |
| Services | 10,449 | 15.9 | 13,913 | 18.2 | 21,960 | 16.8 | 30,117 | 19.9 |
| Total revenues | 65,673 | 100.0 | 76,492 | 100.0 | 130,983 | 100.0 | 151,128 | 100.0 |
| Expenses: | | | | | | | | |
| Cost of software license fees | 9,150 | 13.9 | 11,233 | 14.7 | 20,145 | 15.4 | 22,824 | 15.1 |
| Cost of maintenance and services | 15,772 | 24.0 | 18,011 | 23.5 | 31,540 | 24.1 | 36,722 | 24.3 |
| Research and development | 8,918 | 13.6 | 10,722 | 14.0 | 17,967 | 13.7 | 20,791 | 13.8 |
| Selling and marketing | 16,484 | 25.1 | 18,247 | 23.8 | 33,106 | 25.3 | 37,942 | 25.1 |
| General and administrative | 13,647 | 20.8 | 16,050 | 21.0 | 27,284 | 20.8 | 32,177 | 21.3 |
| Amortization of goodwill | - | - | 3,413 | 4.5 | - | - | 5,780 | 3.8 |
| Total expenses | 63,971 | 97.4 | 77,676 | 101.5 | 130,042 | 99.3 | 156,236 | 103.4 |
| Operating income (loss) | 1,702 | 2.6 | (1,184) | (1.5) | 941 | 0.7 | (5,108) | (3.4) |
| Other income (expense): | | | | | | | | |
| Interest income, net | 729 | 1.1 | (33) | (0.1) | 1,649 | 1.3 | 172 | 0.1 |
| Other | 4,339 | 6.6 | (988) | (1.3) | 333 | 0.2 | (15,026) | (9.9) |
| Total other income (expense) | 5,068 | 7.7 | (1,021) | (1.4) | 1,982 | 1.5 | (14,854) | (9.8) |
| Income (loss) before income taxes | 6,770 | 10.3 | (2,205) | (2.9) | 2,923 | 2.2 | (19,962) | (13.2) |
| Income tax benefit (provision) | (2,220) | (3.4) | (1,399) | (1.8) | (1,173) | (0.9) | 2,006 | 1.3 |
| Income (loss) from continuing operations before cumulative effect of accounting change | 4,550 | 6.9 | (3,604) | (4.7) | 1,750 | 1.3 | (17,956 | (11.9) |
| Cumulative effect of accounting change | - | - | - | - | (25,704) | (19.6) | - | - |
| Net income (loss) | $ 4,550 | 6.9 % | $ (3,604) | (4.7)% | $ (23,954) | (18.3)% | $ (17,956) | (11.9)% |

Revenues. Total revenues for the second quarter of fiscal 2002 decreased $10.8 million, or 14.1%, from the comparable period in fiscal 2001. Total revenues for the first six months of fiscal 2002 decreased $20.1 million, or 13.3%, from the comparable period in fiscal 2001. The three-month decrease is the result of a $9.6 million, or 21.2%, decrease in software license fees revenue and a decrease of $3.5 million, or 24.9%, decrease in services revenue offset by a $2.2 million, or 12.7%, increase in maintenance fees revenue. The six-month decrease is the result of a $17.7 million, or 20.2%, decrease in software license fees revenue and a decrease of $8.2 million, or 27.1%, decrease in services revenue offset by a $5.7 million, or 17.1%, increase in maintenance fees revenue. Approximately $0.8 million of the decrease in total revenues for the second quarter and first six months of fiscal 2002 was due to the sale of Regency Systems, Inc. ("Regency"), which was part of the ACI Worldwide business unit.

The decrease in software license fee revenues for the second quarter and first six months of fiscal 2002, as compared to the same periods in fiscal 2001, is primarily the result of a decrease in demand for ACI Worldwide's and Insession Technologies' products, offset by an increase in demand for IntraNet, Inc.'s products.

The decrease in demand for ACI Worldwide's products is due to fewer transaction volume upgrades received during the second quarter and first six months of fiscal 2002 as compared to the same periods in fiscal 2001. These decreases are due to current global economic conditions that have caused many of the Company's customers to forecast a slowing of electronic transaction volume growth. As a result, these customers have reduced their information technology budgets and spending commitments.

The decrease in Insession Technologies' software license fees revenues is primarily due to a decrease in demand for its ICE product line. This decrease in demand has been caused by the same global economic conditions facing ACI Worldwide.

The increase in IntraNet, Inc.'s software license fees revenues is primarily the result of migrating its customers from the Digital VAX-based MTS product to the new RS6000-based MTS product.

In fiscal 2001, the Company changed its sales compensation plans for its ACI Worldwide and Insession Technologies sales forces to emphasize Paid-Up-Front ("PUF") contracts for both customer renewals and new customers rather than emphasizing combination Initial License Fee and Monthly License Fee ("ILF/MLF") contracts. Over time, the impact of this change is to increase the amount of PUF revenue and reduce the amount of MLF revenue.

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

The decrease in services revenue for the second quarter and first six months of fiscal 2002, as compared to the same periods in fiscal 2001, resulted from lower demand for technical and project management services, which was primarily caused by decreased sales of ACI Worldwide's products and Insession Technologies' products. Offsetting this decrease was an increase is services revenues in the Company's IntraNet, Inc. business unit related to services performed while migrating customers to its new RS6000-based wire transfer product.

Expenses. Total operating expenses for the second quarter of fiscal 2002 decreased $10.3 million, or 13.9%, as compared to the second quarter of fiscal 2001 (excluding $3.4 million of goodwill amortization charges in the second quarter of fiscal 2001). Total operating expenses for the first six months of fiscal 2002 decreased $20.4 million, or 13.6%, as compared to the first six months of fiscal 2001 (excluding $5.8 million of goodwill amortization charges in the first six months of fiscal 2001). During the third quarter of fiscal 2001, the Company implemented a restructuring plan whereby it closed or significantly reduced the size of certain product development organizations and geographic sales offices, made executive management changes and transferred ownership in HHPC to the minority shareholder. These actions have caused the Company's overall operating expenses to decline. Approximately $1.1 million of the decrease in operating expenses for the second quarter and first six months of fiscal 2002 was due to the sale of Regency.

Cost of software license fees for the second quarter of fiscal 2002 decreased $2.1 million, or 18.5%, as compared to the second quarter of fiscal 2001. Cost of software license fees for the first six months of fiscal 2002 decreased $2.7 million, or 11.7%, as compared to the first six months of fiscal 2001. These decreases were due primarily to a decrease in royalties owed to the owners of third-party products resulting from decreases in third-party product sales volumes and a decrease in the royalty rate for one third-party product.

Cost of maintenance and services for the second quarter of fiscal 2002 decreased $2.2 million, or 12.4%, as compared to the second quarter of fiscal 2001. Cost of maintenance and services for the first six months of fiscal 2002 decreased $5.2 million, or 14.1%, as compared to the first six months of fiscal 2001. These decreases were the result of fewer staff needed to support the Company's ACI Worldwide and Insession Technologies services-related business.

Research and development ("R&D") costs for the second quarter of fiscal 2002 decreased $1.8 million, or 16.8%, as compared to the second quarter of fiscal 2001. R&D costs for the first six months of fiscal 2002 decreased $2.8 million, or 13.6%, as compared to the first six months of fiscal 2001. The Company terminated further development of certain products as part of the fiscal 2001 corporate restructuring, causing this decrease. R&D costs as a percentage of total revenues for the three and six months ended March 31, 2002 were 13.6% and 13.7%, respectively, as compared to 14.0% and 13.8%, respectively for comparable periods of fiscal 2001. The Company capitalizes costs related to certain internally-developed software when the resulting products reach technological feasibility. Software development costs capitalized in the first six months of fiscal 2002 and 2001 totaled approximately $0.6 million and $2.6 million, respectively.

Selling and marketing costs for the second quarter of fiscal 2002 decreased $1.8 million, or 9.7%, as compared to the second quarter of fiscal 2001. Selling and marketing costs for the first six months of fiscal 2002 decreased $4.8 million, or 12.7%, as compared to the first six months of fiscal 2001. Selling and marketing costs as a percentage of total revenues for the first six months of fiscal 2002 were 25.3% compared to 25.1% for the first six months of fiscal 2001.

General and administrative costs for the second quarter of fiscal 2002 decreased $2.4 million, or 15.0%, as compared to the second quarter of fiscal 2001. General and administrative costs for the first six months of fiscal 2002 decreased $4.9 million, or 15.2%, as compared to the first six months of fiscal 2001. These decreases were attributable to reductions in personnel and occupancy costs resulting from the fiscal 2001 corporate restructuring, as well as a decrease in bad debts expense.

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

The Company recorded a gain on sale of Regency in the amount of $4.1 million during the three months ended March 31, 2002. After considering current market conditions for technology companies and specific information regarding those companies in which the Company has an ownership interest, the Company determined that the declines in market value for certain of its investment holdings were "other than temporary" and charges to earnings for the declines in market value were required. Therefore, the Company recorded non-cash charges of $2.9 million and $12.4 million during the three months ended December 31, 2001 and 2000, respectively. In addition, the Company expensed costs of $1.9 million associated with the cancelled initial public offering of its wholly-owned subsidiary, Insession Technologies, Inc. in the three months ended December 31, 2000. Also included in other expenses are foreign currency translation gains and losses recognized by the Company.

Income Taxes. The effective tax rate for the first six months of fiscal 2002 was approximately 17% as compared to 10% for the first six months of fiscal 2001. The Company adopted SFAS No. 142 (see Note 6 to the Condensed Consolidated Financial Statements for further details) as of October 1, 2001. As a result of adopting SFAS No. 142, the Company recognized an impairment loss on the carrying value of recorded goodwill and realized an income tax benefit resulting from this impairment loss. The effective tax rate for the first six months of fiscal 2002 is lower than would be expected as the Company recorded a valuation reserve against a portion of this tax benefit.

Each quarter, the Company evaluates its historical operating results as well as its projections for the future to determine the realizability of its deferred tax assets. As of March 31, 2002, the Company has deferred tax assets of $27.8 million (net of $25.9 million valuation allowance) and deferred tax liabilities of $0.5 million. The Company intends to analyze the realizability of its net deferred tax assets at each future reporting period. Such analysis may indicate that the realization of various deferred tax benefits has changed and, therefore, the valuation reserve may be adjusted accordingly.

## Liquidity and Capital Resources

As of March 31, 2002, the Company's principal sources of liquidity consisted of $47.3 million in cash and cash equivalents, and available bank lines of credit. The Company has a $25.0 million bank line of credit agreement with a large United States bank secured by certain trade receivables of TSA. This credit agreement provides that the Company must satisfy certain specified earnings, working capital and minimum tangible net worth requirements, as defined, and places restrictions on the Company's ability to, among other things, sell assets, incur debt, pay dividends, participate in mergers and make investments or guarantees. The Company also has a line of credit agreement with a large foreign bank in the amount of 3.0 million British Sterling, which translates to approximately $4.3 million as of March 31, 2002. The foreign credit agreement requires the Company to maintain minimum tangible net worth within the Company's wholly-owned subsidiary, ACI Worldwide (EMEA) Ltd. There are no line of credit borrowings outstanding as of March 31, 2002. The entire $29.3 million is available to the Company for future borrowings. The Company is in compliance with all debt covenants as of March 31, 2002. The U.S. credit facility expires in June 2002 and the foreign credit facility expires in October 2002. Although no assurances can be given, the Company currently does not anticipate circumstances that would lead to the non-renewal of either of these line of credit agreements.

The Company's net cash flows provided by operating activities for the first six months of fiscal 2002 amounted to $25.4 million. Net cash used in operating activities during the first six months of fiscal 2001 was $1.0 million. In an effort to enhance upfront software license fee payments, the Company adopted an initiative in fiscal 2001 to pursue PUF payment options for its software licensing rather than ILF/MLF payment options. Under the PUF payment option, the licensee pays the license fee at the beginning of the software license term whereas under the ILF/MLF payment option, the licensee pays a portion of the software license fees at the beginning of the software license term and the remaining portion over the software license term. The improvement in operating cash flows in the first six months of fiscal 2002 as compared to the first six months of fiscal 2001 is due to improvements in operating profits and a decrease in billed and accrued receivables, which is due in part to the Company's emphasis on PUF contracts rather than ILF/MLF contracts.

An important contributor to the cash management program has been the Company's factoring of accrued receivables, whereby an interest in its accrued receivables is transferred on a non-recourse basis to third-party financial institutions in exchange for cash. The Company did not factor any accrued receivables during the second quarter of fiscal 2002. During the first six months of fiscal 2002 and 2001, the Company generated operating cash flows from the factoring of accrued receivables of $5.8 million and $8.5 million, respectively.

The Company's net cash flows provided by investing activities totaled $0.8 million for the first six months of fiscal 2002 as compared to net cash flows used in investing activities of $6.0 million during the comparable period of fiscal 2001. Cash used in investing activities decreased by $2.4 million during the first six months of fiscal 2002 as compared to the same period in fiscal 2001 due to decreased additions of investments, notes receivable and software, offset by increased purchases of property and equipment. Additionally, the Company received cash of $0.6 million from an acquisition completed during the first six months of fiscal 2001. The Company also realized net proceeds of $5.0 million related to the sale of Regency during the second quarter of fiscal 2002.

The Company's net cash flows used in financing activities totaled $10.7 million for the first six months of fiscal 2002 as compared to net cash flows provided by financing activities of $4.7 million during the comparable period of fiscal 2001. During the first six months of fiscal 2002, the Company made payments on its bank line of credit facilities of $12.0 million as compared to net borrowings of $3.3 million during the comparable period of fiscal 2001.

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

## Forward-Looking Statements

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

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

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

- The Company will continue to derive a substantial portion of its revenues from licensing of software products that operate on Compaq computers. Any reduction in demand for these computers or in Compaq's ability to deliver products on a timely basis could have a material adverse effect on the Company's financial condition and results of operations. Hewlett-Packard Company announced on May 3, 2002 that it completed its merger transaction with Compaq. Prior to the merger, Compaq announced a plan to consolidate its high-end performance enterprise servers on the Intel Corp. Itanium microprocessor by 2004. The Company has not determined whether the merger, or the consolidation of the high-end servers if it occurs as announced, will materially affect the Company's business, financial position or results of operations.

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

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

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

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

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

## Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes to the Company's market risk for the six months ended March 31, 2002. See the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001 for additional discussions regarding quantitative and qualitative disclosures about market risk.

## PART II - OTHER INFORMATION

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

The Company's Annual Meeting of Stockholders was held on February 19, 2002. Each matter voted upon at such meeting and the number of shares cast for, against or withheld, and abstained are as follows:

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

| Nominee | For | Withheld |
|---|---|---|
| Gregory J. Duman | 26,458,226 | 1,424,858 |
| Jim D. Kever | 18,015,065 | 9,868,019 |
| Larry G. Fendley | 21,303,998 | 6,579,086 |
| Roger K. Alexander | 26,420,564 | 1,462,520 |
| Gregory D. Derkacht | 21,510,218 | 6,372,866 |

2. Proposal to amend the Company's 1999 Stock Option Plan to increase the number of shares for which options may be granted under the plan and increase the number of options for which shares may be granted to "covered employees" under Internal Revenue Code Section 162(m):

   For: 14,860,157 Against: 12,949,820 Abstain: 73,107

3. Proposal to adopt the Company's 2002 Non-Employee Director Stock Option Plan:

   For: 15,255,243 Against: 12,541,518 Abstain: 86,323

4. Proposal to ratify the appointment of Arthur Andersen LLP as the Company's independent auditors:

   For: 24,210,314 Against: 3,491,469 Abstain: 181,301

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

(a) Exhibits:

None.

(b) Reports on Form 8-K:

None.

## SIGNATURE

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

TRANSACTION SYSTEMS ARCHITECTS, INC.
(Registrant)

Dated: May 10, 2002 By: /s/ EDWARD C. FUXA

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