

**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, 2007

Commission File Number 0-25346

ACI WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**120 Broadway, Suite 3350
New York, New York 10271**

(Address of principal executive offices,
including zip code)

47-0772104

(I.R.S. Employer
Identification No.)

(646) 348-6700

(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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 9, 2007, there were 36,670,658 shares of the registrant's common stock outstanding.

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**ACI WORLDWIDE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)**

	<u>March 31, 2007</u> (unaudited)	<u>September 30, 2006</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 95,963	\$ 110,148
Billed receivables, net of allowances of \$2,097 and \$2,110	75,068	72,439
Accrued receivables	11,332	14,443
Deferred income taxes, net	4,575	9,410
Recoverable income taxes	5,825	—
Other current assets	17,667	19,079
Total current assets	<u>210,430</u>	<u>225,519</u>
Property, plant and equipment, net	18,869	14,306
Software, net	32,760	34,294
Goodwill	201,360	191,518
Other intangible assets, net	41,050	42,435
Deferred income taxes, net	16,126	12,294
Other assets	12,791	13,781
TOTAL ASSETS	<u>\$ 533,386</u>	<u>\$ 534,147</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 10,806	\$ 15,090
Accrued employee compensation	21,447	30,089
Deferred revenue	96,402	78,996
Income taxes payable	—	1,788
Accrued settlement for class action litigation	—	8,450
Accrued and other current liabilities	16,761	23,174
Total current liabilities	<u>145,416</u>	<u>157,587</u>
Deferred revenue	25,343	20,380
Note payable under credit facility	75,000	75,000
Other noncurrent liabilities	16,721	13,968
Total liabilities	<u>262,480</u>	<u>266,935</u>
Commitments and contingencies (Note 12)		
Stockholders' equity		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; no shares issued and outstanding at March 31, 2007 and September 30, 2006	—	—
Common stock, \$0.005 par value; 70,000,000 shares authorized; 40,822,786 and 40,823,728 shares issued at March 31, 2007 and September 30, 2006, respectively	204	204
Treasury stock, at cost, 3,660,936 and 3,561,745 shares outstanding at March 31, 2007 and September 30, 2006, respectively	(97,768)	(94,313)
Additional paid-in capital	309,445	307,553
Retained earnings	64,564	62,357
Accumulated other comprehensive loss	(5,539)	(8,589)
Total stockholders' equity	<u>270,906</u>	<u>267,212</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 533,386</u>	<u>\$ 534,147</u>

ACI WORLDWIDE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited and in thousands, except per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2007	2006 (Restated)	2007	2006 (Restated)
Revenues:				
Software license fees	\$ 38,524	\$ 47,730	\$ 79,709	\$ 91,122
Maintenance fees	29,901	24,746	58,630	50,064
Services	21,523	17,357	44,898	33,722
Total revenues	89,948	89,833	183,237	174,908
Expenses:				
Cost of software license fees	11,193	7,505	21,404	14,440
Cost of maintenance and services	23,351	19,056	47,498	39,947
Research and development	12,041	9,978	24,026	19,730
Selling and marketing	16,799	16,529	34,949	32,541
General and administrative	26,353	15,563	50,184	32,533
Total expenses	89,737	68,631	178,061	139,191
Operating income	211	21,202	5,176	35,717
Other income (expense):				
Interest income	1,014	1,586	1,899	4,513
Interest expense	(1,597)	(87)	(3,057)	(116)
Other, net	(337)	354	(630)	(12)
Total other income (expense)	(920)	1,853	(1,788)	4,385
Income (loss) before income taxes	(709)	23,055	3,388	40,102
Income tax benefit (provision)	295	(8,069)	(1,181)	(9,926)
Net income (loss)	\$ (414)	\$ 14,986	\$ 2,207	\$ 30,176
Earnings per share information				
Weighted average shares outstanding				
Basic	37,162	37,241	37,172	37,247
Diluted	37,162	38,083	37,928	38,051
Earnings per share				
Basic	\$ (0.01)	\$ 0.40	\$ 0.06	\$ 0.81
Diluted	\$ (0.01)	\$ 0.39	\$ 0.06	\$ 0.79

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

ACI WORLDWIDE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited and in thousands)

	Six Months Ended March 31,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 2,207	\$ 30,176
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	2,839	2,042
Amortization	7,121	1,861
Tax expense of intellectual property transfer	956	—
Amortization of debt financing cost	168	—
Gain on transfer of assets under contractual obligation	(404)	—
Loss on disposal of assets	63	—
Deferred income taxes	(167)	(1,631)
Share-based compensation expense	3,412	2,884
Tax benefit of stock options exercised and settled	861	681
Changes in operating assets and liabilities:		
Billed and accrued receivables, net	3,758	1,094
Other current assets	273	1,044
Other assets	(47)	(6)
Accounts payable	(5,206)	(3,121)
Accrued employee compensation	(11,390)	(2,729)
Accrued liabilities	2,575	(697)
Payment of class action litigation settlement	(8,450)	—

Current income taxes	(5,128)	12,474
Deferred revenue	19,639	(946)
Other current and noncurrent liabilities	2,292	102
Net cash flows from operating activities	15,372	43,228
Cash flows from investing activities:		
Purchases of property and equipment	(5,652)	(3,049)
Purchases of software and distribution rights	(771)	(255)
Purchases of marketable securities	(2,500)	(36,062)
Acquisition of businesses, net of cash acquired	(14,922)	(59)
Sales of marketable securities	—	32,703
Proceeds from assets transferred under contractual obligation	500	—
Net cash flows from investing activities	(23,345)	(6,722)
Cash flows from financing activities:		
Proceeds from issuance of common stock	—	589
Proceeds from exercises of stock options	25	7,055
Excess tax benefit of stock options exercised	17	1,506
Purchases of common stock	(4,353)	(13,978)
Payments on debt and capital leases	(1,961)	(2,002)
Other	—	122
Net cash flows from financing activities	(6,272)	(6,708)
Effect of exchange rate fluctuations on cash	60	48
Net increase (decrease) in cash and cash equivalents	(14,185)	29,846
Cash and cash equivalents, beginning of period	110,148	83,693
Cash and cash equivalents, end of period	\$ 95,963	\$ 113,539
Supplemental cash flow information:		
Income taxes paid (benefit received), net	7,747	(3,295)
Interest paid	1,578	120

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

1. Consolidated Financial Statements

On July 24, 2007, stockholders approved the adoption of an Amended and Restated Certificate of Incorporation to change the Company name from “Transaction Systems Architects, Inc.” to “ACI Worldwide, Inc.” The Company has been marketing its products and services under the ACI Worldwide brand since 1993 and has gained significant market recognition under this brand name. Historically, the Company operated with three business units: ACI Worldwide, Insession Technologies and Intranet Worldwide. In the first quarter of fiscal 2006, the Company restructured its organization combining the products and services within these three business units into one operating unit under the ACI Worldwide name.

The unaudited consolidated financial statements include the accounts of ACI Worldwide, Inc. (“the Company”) and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The consolidated financial statements at March 31, 2007, and for the three and six months ended March 31, 2007 and 2006, are unaudited and reflect all adjustments of a normal recurring nature, except as otherwise disclosed herein, which are, in the opinion of management, necessary for a fair presentation, in all material respects, of the financial position and operating results for the interim periods.

The consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto, together with management’s discussion and analysis of financial condition and results of operations, contained in the Company’s annual report on Form 10-K for the fiscal year ended September 30, 2006. The results of operations for the three and six months ended March 31, 2007 are not necessarily indicative of the results that may be achieved for the entire fiscal year ending September 30, 2007.

The preparation of 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.

During the six months ended March 31, 2007, the Company was conducting an independent review of historical stock option grants, preparing restated historical financial information, and working towards becoming current on its filings with the Securities and Exchange Commission (“SEC”). This process continued subsequent to the end of the quarter. The details of the investigation and the conclusions reached by management, including restated historical financial information, are more fully described in the Company’s Form 10-K for the year ended September 30, 2006 which was filed with the SEC on May 11, 2007.

Acquisitions

eps Electronic Payment Systems AG

On May 31, 2006, the Company acquired the outstanding shares of eps Electronic Payment Systems AG (“eps AG”). The aggregate purchase price for eps AG was \$30.4 million, which was comprised of cash payments of \$19.1 million, 330,827 shares of common stock valued at \$11.1 million, and direct costs of the acquisition. eps AG, with operations in Germany, Romania, the United Kingdom and other European locations, offers electronic payment and complementary solutions focused largely in the German market. The acquisition of eps AG occurred in two closings. The initial closing occurred on May 31, 2006, and the second closing occurred on October 31, 2006. Cash consideration paid at the initial closing totaled \$13.0 million, net of \$3.1 million of cash

acquired and the remaining cash consideration of \$6.1 million was paid on October 31, 2006. All shares of the Company's common stock issued as consideration for the eps AG acquisition were issued at the initial closing. The Company accounted for the acquisition of eps AG in its entirety as of May 31, 2006, and recorded a liability, included in accrued and other liabilities at September 30, 2006, in the amount of \$6.1 million, for the remaining cash consideration that was paid on October 31, 2006. The Company accounted for this as a delayed delivery of consideration as the price was fixed and not subject to change, with complete decision-making and control of eps AG held by the Company as of the date of the initial closing.

Under the terms of the acquisition, the parties established a cash escrow arrangement in which approximately \$1.0 million of the cash consideration paid at the initial closing was held in escrow as security for a potential contingent obligation. The Company distributed the escrow in October 2006 in accordance with the terms of the escrow arrangement as the contingent liability paid by the Company was recovered from a third party. Additionally, certain of the sellers of eps AG have committed

to certain indemnification obligations as part of the sale of eps AG. Those obligations are secured by the shares of common stock issued to the sellers pursuant to the eps AG acquisition to the degree such shares are restricted at the time such an indemnification obligation is triggered, if at all, the likelihood of which is deemed remote.

The consolidated financial statements as of March 31, 2007 and September 30, 2006 and for the three and six months ended March 31, 2007 include amounts acquired from, as well as results of operations of, eps AG.

P&H Solutions, Inc.

On August 28, 2006, the Company entered into an Agreement and Plan of Merger with P&H Solutions, Inc. ("P&H") under the terms of which P&H became a wholly-owned subsidiary of the Company. P&H is a provider of web-based enterprise business banking solutions to financial institutions. The acquisition of P&H closed on September 29, 2006. The aggregate purchase price for P&H, including direct costs of the acquisition, was \$133.7 million, net of \$20.2 million of cash acquired. The purchase price allocation is preliminary and may change due to the finalization of bad debt reserves and escrow distributions.

The consolidated financial statements as of March 31, 2007 and September 30, 2006 and for the three and six months ended March 31, 2007 include amounts acquired from, as well as results of operations of, P&H.

During the three and six months ended March 31, 2007 the Company incurred cash payments of \$1.1 million and \$10.5 million, respectively, for P&H acquisition-related compensation.

Visual Web

On February 7, 2007, the Company acquired Visual Web Solutions, Inc. ("Visual Web"), a leading provider of international trade finance and web-based cash management solutions, primarily to financial institutions in the Asia/Pacific region. These solutions will complement and be integrated with the Company's U.S.-centric cash management and online banking solutions to create a more complete international offering. Visual Web has wholly-owned subsidiaries in Singapore for sales and customer support and in Bangalore, India for product development and services.

The consolidated financial statements as of March 31, 2007 and for the three and six months then ended include amounts acquired from, as well as the results of operations of, Visual Web from February 7, 2007 forward.

The aggregate purchase price of Visual Web, including direct costs of the acquisition, was \$8.3 million, net of \$1.1 million of cash acquired. Under the terms of the acquisition, the parties established a cash escrow arrangement in which \$1.1 million of the cash consideration paid at closing is held in escrow as security for tax and other contingencies. The allocation of the purchase price to specific assets and liabilities was based, in part, upon outside appraisals of the fair value of certain assets. In connection with the acquisition, the Company recorded the following amounts based upon its preliminary purchase price allocation (in thousands, except weighted-average useful lives):

	Amount	Weighted-Average Useful Lives
Current assets:		
Billed receivables, net of allowances	\$ 801	
Accrued receivables	333	
Other	441	
Noncurrent assets:		
Property and equipment	558	
Developed software	1,339	6.0 years
Goodwill	6,863	
Customer relationships, noncompetes, and other intangible assets	1,241	8.0 years
Total assets acquired	11,576	
Current liabilities	2,310	
Long-term liabilities	971	
Total liabilities assumed	3,281	

The finalization of the purchase price allocation may result in certain adjustments to the preliminary amounts including tax contingencies and escrow distributions. Factors contributing to the purchase price which resulted in the recognized goodwill (none of which will be tax deductible) include the acquisition of management, sales, and technology personnel with the skills to develop and market new products of the Company. Pro forma results are not presented due to insignificance.

Recent Accounting Standards

Recently Adopted Accounting Standards

The Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 154, *Accounting Changes and Error Corrections*, which supersedes APB 20, *Accounting Changes*, and SFAS 3, *Reporting Accounting Changes in Interim Financial Statements*, as of October 1, 2006. SFAS No. 154 changes the method for reporting an accounting change. Under SFAS No. 154, accounting changes must be retrospectively applied to all prior periods whose financial statements are presented, unless the change in accounting principle is due to a new pronouncement that provides other transition guidance or unless application of the retrospective method is impracticable. Under the retrospective method, companies will no longer present the cumulative effect of a change in accounting principle in their statement of operations for the period of the change. SFAS No. 154 carries forward unchanged APB 20’s guidance for reporting corrections of errors in previously issued financial statements and for reporting changes in accounting estimates. The adoption of SFAS No. 154 had no impact on the Company’s financial statements as there have been no accounting changes or errors during the first six months of fiscal 2007.

The Company adopted EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* (“EITF No. 06-3”) as of January 1, 2007. EITF No. 06-3 requires the disclosure of the Company’s accounting policy regarding its gross or net presentation of externally imposed taxes on revenue producing transactions in the notes to the consolidated financial statements. No additional disclosures are required since the Company’s policy is to present revenues net of any taxes collected from customers.

Recently Issued Accounting Standards

In June 2005, the FASB issued FASB Staff Position No. (“FSP”) FAS 143-1, *Accounting for Electronic Equipment Waste Obligations*. FSP FAS 143-1 addresses the accounting for obligations associated with Directive 2002/96/EC on Electrical and Electronic Equipment (the “Directive”) adopted by the European Union (“EU”). FSP FAS 143-1 is effective the later of the Company’s fiscal 2006 or the date that an EU member country in which the Company might have an obligation adopts the

Directive. To date, the adoption of FSP FAS 143-1 in those countries which have already adopted the Directive has not had a material effect on the Company’s financial position, results of operations or cash flows and the Company does not expect the adoption of FSP FAS 143-1 by countries in the future to have a material effect on its financial position, results of operations or cash flows.

In June 2006, the FASB ratified EITF No. 06-2 *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences* (“EITF No. 06-2”). EITF No. 06-2 provides guidelines under which sabbatical leave or other similar benefits provided to an employee are considered to accumulate, as defined in FASB Statement 43. If such benefits are deemed to accumulate, then the compensation cost associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period. The provisions of this Issue are effective for fiscal years beginning after December 15, 2006 and allow for either retrospective application or a cumulative effect adjustment to equity upon adoption. The Company does not expect that the adoption of EITF No. 06-2 will have a material effect on its consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. (“FIN”) 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* (“FIN 48”), which establishes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact, if any, that this interpretation will have on its financial condition and/or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS No. 157”). SFAS No. 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS No. 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS No. 157 is effective for the Company’s 2009 fiscal year, although early adoption is permitted. The Company is currently assessing the potential effect, if any, of SFAS No. 157 on its consolidated financial statements.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (“SAB 108”). SAB 108 requires that registrants quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 must be implemented by the end of the Company’s fiscal 2007. The Company does not expect the adoption of SAB 108 to significantly affect its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans — an Amendment of FASB Statements No. 87, 88, 106 and 132(R)* (“SFAS No. 158”). SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize the changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS No. 158 is effective for the Company as of the end of its fiscal 2007. The Company does not expect the adoption of SFAS No. 158 to significantly affect its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115* (“SFAS 159”). SFAS No. 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in earnings. Entities electing the fair value option are required to distinguish, on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. SFAS 159 is effective for the Company’s fiscal year 2008. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of initial adoption. The Company is currently evaluating the impact, if any, of SFAS 159 on its consolidated financial statements.

2. 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 97-2”), SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions* (“SOP 98-9”), and SEC Staff Accounting Bulletin (“SAB”) 101, *Revenue Recognition in Financial Statements, as codified 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 postcontract customer support (maintenance or “PCS”) or other products or services, is deferred and subsequently recognized as the products are delivered or the services are performed, with the residual difference between the total arrangement fee and revenues allocated to undelivered elements being allocated to the delivered element.

When a software license arrangement includes services to provide significant 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* (“ARB No. 45”), and the relevant guidance provided by SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (“SOP 81-1”). Accounting for services delivered over time (generally in excess of twelve months) 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 and profitability under the contract consider amounts due under extended payment terms. In certain cases, the Company provides its customers with extended payment terms whereby payment is deferred beyond when the services are rendered. In other projects, the Company provides its customer with extended payment terms that are refundable in the event certain milestones are not achieved or the project scope changes. The Company excludes revenues due on extended payment terms from its current percentage-of-completion computation until such time that collection of the fees becomes probable. In the event project profitability is assured and estimable within a range, percentage-of-completion revenue recognition is computed using the lowest level of profitability in the range. If the range of profitability is not estimable but some level of profit is assured, revenues are recognized to the extent direct and incremental costs are incurred until such time that project profitability can be estimated. In the event some level of profitability cannot be reasonably assured, completed-contract accounting is applied. If it is determined that a loss will result from the performance of a contract, the entire amount of the loss is recognized in the period in which it is determined that a loss will result.

For software license arrangements in which a significant portion of the fee is due more than 12 months after delivery, the software license fee is deemed not to be fixed or determinable. For software license arrangements in which the fee is not considered fixed or determinable, the software license fee is recognized as revenue as payments become due and payable, 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 licenses, provided all other revenue recognition criteria have been met.

Certain of the Company's software license arrangements are short-term, time-based license arrangements; allow the customer to vary their software mix; or include PCS terms that fail to achieve VSOE of fair value due to non-substantive renewal rates. For these arrangements, VSOE of fair value of PCS does not exist and revenues are therefore recognized ratably over the PCS term. The Company typically classifies revenues associated with these arrangements in accordance with the contractually-specified amounts assigned to the various elements, including software license fees and maintenance fees. The following are amounts included in revenues in the consolidated statements of operations for which VSOE of fair value does not exist for each element (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2007	2006	2007	2006
Software license fees	\$ 2,681	\$ 4,057	\$ 4,619	\$ 8,307
Maintenance fees	961	1,364	2,257	2,676
Services	1,161	965	2,193	2,287
Total	\$ 4,803	\$ 6,386	\$ 9,069	\$ 13,270

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.

For those arrangements that meet the criteria to be accounted for under contract accounting, the Company determines whether VSOE of fair value exists for the PCS element. For those situations in which VSOE of fair value exists for the PCS element, PCS is accounted for separately and the balance of the arrangement is accounted for under ARB No. 45 and the relevant guidance provided by SOP 81-1. For those arrangements in which VSOE of fair value does not exist for the PCS element, revenue is recognized to the extent direct and incremental costs are incurred until such time as the services are complete. Once services are complete, all remaining revenue is then recognized ratably over the remaining PCS period.

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, such costs are deferred and subsequently expensed in proportion to the services revenue as it is recognized.

Hosting. The Company's hosting-related arrangements contain multiple products and services. As these arrangements generally do not contain a contractual right to take possession of the software at anytime during the hosting period without significant penalty, the Company applies the separation provisions of Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. The Company uses the relative fair value method of revenue recognition to allocate the total consideration derived from the arrangement to each of the elements. Any up-front fees allocated to the hosting services are recognized over the estimated life of the hosting relationship. Professional services revenues are recognized as the

services are performed when the services have stand-alone value and over the estimated life of the hosting relationship when the services do not have stand-alone value.

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.

The Company may execute more than one contract or agreement with a single customer. The separate contracts or agreements may be viewed as one multiple-element arrangement or separate agreements for revenue recognition purposes. The Company evaluates the facts and circumstances related to each situation in order to reach appropriate conclusions regarding whether such arrangements are related or separate. The conclusions reached can impact the timing of revenue recognition related to those arrangements.

3. Share-Based Compensation Plans

A summary of stock options as of March 31, 2007 and changes during the six months then ended is as follows:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at September 30, 2006	3,459,090	\$ 18.24		
Granted	—	—		
Exercised	(3,543)	\$ 7.52		

Cancelled/Forfeited/Expired	(138,006)	\$	19.10		
Outstanding at March 31, 2007	3,317,541	\$	18.21	6.6	\$ 47,389
Exercisable at March 31, 2007	2,089,315	\$	14.41	5.7	\$ 37,592

No stock options were granted during the first six months of fiscal 2007. The weighted-average grant date fair value of stock options granted during the six months ended March 31, 2006 was \$14.21. The total intrinsic value of stock options exercised during the first six months of fiscal 2007 and fiscal 2006 was \$0.1 million and \$6.5 million, respectively. During the first six months of fiscal 2007 stock option exercises were limited due to the suspension of stock option activity during the period because the Company was not current with its filings with the SEC. During the first six months of fiscal 2006, the Company issued new shares of common stock for the exercise of stock options. The Company issued treasury shares for the exercise of stock options during the first six months of fiscal 2007.

The fair value of options granted during the first six months of fiscal 2006 was estimated on the date of grant using the Black-Scholes option-pricing model, a pricing model acceptable under SFAS No. 123(R), with the following weighted-average assumptions:

	Three Months Ended March 31, 2006	Six Months Ended March 31, 2006
Expected life	4.0	4.4
Interest rate	4.7%	4.6%
Volatility	42%	42%
Dividend yield	—	—

Expected volatilities are based on implied volatilities from traded options on the Company's common stock as well as the

Company's historical common stock volatility derived from historical stock price data for historical periods commensurate with the options' expected life. The expected life of options granted represents the period of time that options granted are expected to be outstanding, assuming differing exercise behaviors for stratified employee groupings. The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero coupon issues with a remaining term equal to the expected term at the date of grant of the options. The expected dividend yield is zero as the Company has historically paid no dividends and does not anticipate dividends to be paid in the future.

The Company did not grant any long-term incentive program performance share awards ("LTIP Performance Shares") pursuant to the Company's 2005 Incentive Plan during the first six months of fiscal 2007. During the first six months of fiscal 2006, the Company granted long-term LTIP Performance Shares representing 124,000 shares (based on a target of 100%) of the Company's common stock with a weighted-average grant date fair value of \$29.18 per share to various key employees of the Company, using the market price of the Company's common stock at the time of grant as the fair value per share. A summary of nonvested LTIP Performance Shares as of March 31, 2007 and changes during the six months then ended is as follows:

Nonvested LTIP Performance Shares	Number of shares at 150% Attainment	Weighted-Average Grant Date Fair Value
Nonvested at September 30, 2006	219,150	\$ 28.99
Granted	—	—
Vested	—	—
Cancelled/Forfeited/Expired	(7,950)	29.10
Nonvested at March 31, 2007	211,200	\$ 28.98

These LTIP Performance Shares are earned, if at all, based upon the achievement, over a three-year period (the "Performance Period"), of performance goals related to (i) the compound annual growth over the Performance Period in the Company's 60-month backlog as determined and defined by the Company, (ii) the compound annual growth over the Performance Period in the diluted earnings per share as reported in the Company's consolidated financial statements, and (iii) the compound annual growth over the Performance Period in the total revenues as reported in the Company's consolidated financial statements. In no event will any of the LTIP Performance Shares become earned if the Company's earnings per share is below a predetermined minimum threshold level at the conclusion of the Performance Period. Assuming achievement of the predetermined minimum earnings per share threshold level, up to 150% of the LTIP Performance Shares may be earned upon achievement of performance goals equal to or exceeding the maximum target levels for compound annual growth over the Performance Period in the Company's 60-month backlog, diluted earnings per share and total revenues. Management must evaluate, on a quarterly basis, the probability that the target performance goals will be achieved, if at all, and the anticipated level of attainment in order to determine the amount of compensation costs to record in the consolidated financial statements. Management currently believes that the achievement level of 150% will be attained.

As of March 31, 2007, there were unrecognized compensation costs of \$8.6 million related to nonvested stock options and \$2.3 million related to nonvested LTIP Performance Shares which the Company expects to recognize over weighted-average periods of 2.4 years and 1.5 years, respectively.

Share-based compensation expense recognized under SFAS No. 123(R) in the second quarter of fiscal 2007 related to stock options and LTIP Performance Shares was \$1.7 million, with corresponding tax benefits of \$0.6 million. Share-based compensation expense recognized under SFAS No. 123(R) in the first six months of fiscal 2007 related to stock options and LTIP Performance Shares was \$3.4 million, with corresponding tax benefits of \$1.2 million. No share-based compensation costs were capitalized during the second quarter or first six months of fiscal 2007. Share-based compensation expense related to stock options, LTIP Performance Shares and the ESPP recognized under SFAS No. 123(R) in the second quarter of fiscal 2006 was \$1.5 million, with corresponding tax benefits of \$0.5 million. Share-based compensation expense related to stock options, LTIP Performance Shares and the ESPP recognized under SFAS No. 123(R) in the first six months of fiscal 2006 was \$2.9 million, with corresponding tax benefits of \$1.0 million. Estimated forfeiture rates, stratified by employee classification, have been included as part of the Company's calculations of compensation costs. The Company recognizes compensation costs for stock option awards which vest with the passage of time with only service conditions on a straight-line basis over the requisite service period. There was no expense recognized for the

ESPP in the second quarter or first six months of fiscal 2007 due to the suspension of the plan during the period because the Company was not current with its filings with the SEC.

There were no option exercises during the quarter ended March 31, 2007 due to the suspension of stock option activity during the period because the Company was not current with its filings with the SEC. Cash received from option exercises for the quarter ended March 31, 2006 was \$3.7 million. Cash received from option exercises for the first six months of fiscal 2007 and 2006 was \$0.1 million and \$7.1 million, respectively. The actual tax benefit realized for the tax deductions from option exercises was \$1.1 million for the quarter ended March 31, 2006. The actual tax benefit realized for the tax deductions from option exercises totaled \$0.1 million and \$2.2 million for the six months ended March 31, 2007 and 2006, respectively.

During the six months ended March 31, 2007, the Company reclassified 325,962 vested options from equity classification to liability classification, as these options were either cash settled during the six months or were expected, as of March 31, 2007, to be cash settled in future periods due to the suspension of option exercises because the Company was not current with its filings with the SEC. As a result, the Company recorded a charge to compensation expense of \$3.7 million in the six month period ended March 31, 2007 which is recorded in general and administrative expense in the accompanying consolidated statements of operations.

4. Marketable Securities

The Company accounts for its investments in marketable securities in accordance with 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 loss. Net realized gains and losses are computed on the basis of average cost and are recognized when realized. Components of the Company's marketable securities portfolio, included in other current assets, at each balance sheet date were as follows (in thousands):

	March 31, 2007	September 30, 2006
Municipal auction rate notes	\$ 2,500	\$ —

At each balance sheet date, all of the Company's investments in municipal auction rate notes had an AAA rating. Due to the nature of the marketable securities in which the Company invests, the Company does not typically experience significant movements in the market values of its marketable securities investments. As a result, gross unrealized gains and losses on the Company's investments in marketable securities are insignificant.

5. Goodwill

Changes in the carrying amount of goodwill during the first six months of fiscal 2007, consisting primarily of additional goodwill related to the acquisitions of P&H, eps AG and Visual Web, as well as foreign currency translation adjustments, were as follows (in thousands):

	Total
Balance, September 30, 2006	\$ 191,518
Foreign currency translation adjustments	2,799
Adjustments — acquisition of P&H	119
Adjustments — acquisition of eps AG	61
Additions — acquisition of Visual Web	6,863
Balance, March 31, 2007	\$ 201,360

6. Software and Other Intangible Assets

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

	March 31, 2007	September 30, 2006
Internally-developed software	\$ 13,039	\$ 13,156
Purchased software	77,664	73,863
	90,703	87,019
Less: accumulated amortization	(57,943)	(52,725)
Software, net	\$ 32,760	\$ 34,294

At March 31, 2007, the \$32.8 million software net book value includes the following software purchased through acquisitions which is being marketed for external sale: \$1.9 million in S2 Systems, Inc. purchased software, \$4.4 million of eps AG purchased software, \$20.6 million of P&H purchased software, and \$1.3 million of Visual Web purchased software. The remaining software net book value of \$4.6 million is comprised of various software that has been acquired or developed for internal use. The Company did not capitalize internal software development costs to be marketed for external sale in the first six months of fiscal 2007 or 2006.

Amortization of acquired software marketed for external sale 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 to six years. Software amortization expense recorded in the second quarter of fiscal 2007 and 2006 totaled \$2.0 million and \$0.5 million, respectively. Software amortization expense recorded in the first six months of fiscal 2007 and 2006 totaled \$3.9 million and \$0.9 million, respectively. The majority of these software amortization expense amounts are reflected in either cost of software license fees or general and administrative expenses in the consolidated statements of operations.

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

	March 31, 2007	September 30, 2006
Customer relationships	\$ 38,659	\$ 36,891
Purchased contracts	11,527	11,411
Trademarks and tradenames	2,192	2,152
Covenant not to compete	1,447	1,450
	<u>53,825</u>	<u>51,904</u>
Less: accumulated amortization	(12,775)	(9,469)
Other intangible assets, net	<u>\$ 41,050</u>	<u>\$ 42,435</u>

Other intangible assets amortization expense recorded in the second quarter of fiscal 2007 and 2006 totaled \$1.6 million and \$0.4 million, respectively. Other intangible assets amortization expense recorded in the first six months of fiscal 2007 and 2006 totaled \$3.2 million and \$0.9 million, respectively.

The Company added other intangible assets of \$25.1 million and \$5.7 million, respectively, from the acquisition of P&H and eps AG in fiscal 2006. Other intangible assets of \$1.2 million from the acquisition of Visual Web were added in the second quarter of fiscal 2007. Based on capitalized intangible assets at March 31, 2007, and assuming no impairment of these intangible assets, estimated amortization expense for the remainder of fiscal 2007 and in future fiscal years is as follows (in thousands):

Fiscal Year Ending September 30,	Software Amortization	Other Intangible Assets Amortization
2007	\$ 4,044	\$ 3,185
2008	7,179	6,173
2009	6,650	6,019
2010	5,873	5,941
2011	5,543	5,941
Thereafter	3,471	13,791
Total	<u>\$ 32,760</u>	<u>\$ 41,050</u>

7. Corporate Restructuring and Other Reorganization Charges

During fiscal 2006, the Company also restructured its Product and Americas Sales organizations. These actions resulted in severance-related restructuring charges of \$0.9 million during fiscal 2006 and additional severance-related restructuring charges of \$0.3 million during the first six months of fiscal 2007, which are reflected in operating expenses. The allocation of these charges was as follows: \$0.1 million in selling and marketing, \$0.1 million in general and administrative, and \$0.1 million in research and development. The majority of these charges were in the Americas reportable operating segment. The Company anticipates that these restructuring amounts will be paid by the end of fiscal 2007. The following table shows activity in the first six months of fiscal 2007 related to these exit activities (in thousands):

	Termination Benefits
Balance, September 30, 2006	\$ 724
Additional termination charges incurred	307
Adjustments to previously recorded liabilities	(70)
Amounts paid during the first six months of fiscal 2007	(936)
Balance, March 31, 2007	<u>\$ 25</u>

8. Common Stock and Earnings Per Share

Options to purchase shares of the Company's common stock at an exercise price of one cent per share are included in common stock for presentation purposes on the March 31, 2007 and September 30, 2006 consolidated balance sheets, and are included in common shares outstanding for earnings per share computations for the three and six months ended March 31, 2007 and 2006. Included in common stock are 1,270 penny options and 2,212 penny options at March 31, 2007 and September 30, 2006, respectively.

In March 2007, the Company's Board of Directors approved an increase of \$100 million to the Company's current repurchase authorization for the purchase of common stock, bringing the total authorization to \$210 million, of which approximately \$133 million remains available as of March 31, 2007. As of March 31, 2007, the Company has purchased approximately 2.8 million shares for approximately \$77.0 million. Purchases are made from time to time as market and business conditions warrant, in open market, negotiated or block transactions, subject to applicable laws, rules and regulations. In June and July 2007, the Company purchased 490,720 shares at an average price of \$33.87 per share.

Earnings per share is computed in accordance with SFAS No. 128, *Earnings per Share*. Basic earnings per share is computed on the basis of weighted average outstanding common shares. Diluted earnings per share is computed on the basis of basic weighted average outstanding common shares adjusted for the dilutive effect of stock options and other outstanding dilutive securities. The following table reconciles the average share amounts used to compute both basic and diluted earnings per share (in thousands):

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	Three Months Ended March 31,		Six Months Ended March 31,	
	2007	2006 (Restated)	2007	2006 (Restated)
Weighted average shares outstanding:				
Basic weighted average shares outstanding	37,162	37,241	37,172	37,247
Add: Dilutive effect of stock options, restricted stock awards and other dilutive securities	—	842	756	804
Diluted weighted average shares outstanding	<u>37,162</u>	<u>38,083</u>	<u>37,928</u>	<u>38,051</u>

For the second quarter and first six months of fiscal 2007 there were 0.6 million stock options and 0.2 million LTIP shares outstanding in both periods that were excluded from the computations of diluted earnings per share because the awards are contingently issuable shares or the exercise prices of the corresponding stock options were greater than the average market value of common stock during the period. For the second quarter and first six months of fiscal 2006 there were 0.7 million and 0.8 million stock options outstanding, respectively, and 0.1 million and 0.1 million LTIP shares outstanding, respectively, that were excluded from the computation.

9. Comprehensive Income

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2007	2006	2007	2006
Net income (loss)	\$ (414)	\$ 14,986	\$ 2,207	\$ 30,176
Other comprehensive income (loss):				
Foreign currency translation adjustments	595	9	3,050	(237)
Change in unrealized investment holding loss:				
Unrealized holding loss arising during the period	—	4	—	3
Comprehensive income	<u>\$ 181</u>	<u>\$ 14,999</u>	<u>\$ 5,257</u>	<u>\$ 29,942</u>

Accumulated other comprehensive income (loss) included in the Company's consolidated condensed balance sheets represents the accumulated foreign currency translation adjustment.

10. Segment Information

The Company's chief operating decision maker, together with other senior management personnel, currently focus their review of consolidated financial information and the allocation of resources based on reporting of operating results, including revenues and operating income, for the geographic regions of the Americas, Europe/Middle East/Africa ("EMEA") and Asia/Pacific. The Company's products are sold and supported through distribution networks covering these three geographic regions, with each distribution network having its own sales force. The Company supplements its distribution networks with independent reseller and/or distributor arrangements. As such, the Company has concluded that its three geographic regions are its reportable operating segments. The Company's chief operating decision maker reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues and operating income by geographical region.

The following are revenues and operating income for the periods indicated. The prior period amounts for operating income have been reclassified to conform to current year presentation which reflect a change in the allocation of corporate and certain global support costs (in thousands):

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	Three Months Ended March 31,		Six Months Ended March 31,	
	2007	2006	2007	2006
Revenues:				
Americas	\$ 52,622	\$ 43,609	\$ 99,756	\$ 87,529
EMEA	28,746	37,356	66,301	71,020
Asia/Pacific	8,580	8,868	17,180	16,359
	<u>\$ 89,948</u>	<u>\$ 89,833</u>	<u>\$ 183,237</u>	<u>\$ 174,908</u>
Operating income (loss):				
Americas	5,603	12,188	8,225	22,854
EMEA	(6,587)	6,381	(5,890)	9,338
Asia/Pacific	1,195	2,633	2,841	3,525

No single customer accounted for more than 10% of the Company's consolidated revenues during the second quarter or first six months of fiscal 2007 or 2006. Aggregate revenues attributable to customers in the United Kingdom accounted for 6.8% and 12.8% of the Company's consolidated revenues during the second quarter of fiscal 2007 and 2006, respectively, and 9.8% and 12.3% during the first six months of fiscal 2007 and 2006, respectively.

Revenues and expenses resulting from the acquisition of P&H are included in the Americas reportable operating segment, while revenues and expenses related to eps AG are primarily included in the EMEA reportable operating segment, for the quarter and six months ended March 31, 2007. Revenues and expenses related to Visual Web are primarily included in the Asia/Pacific reportable operating segment for the quarter and six months ended March 31, 2007.

11. 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. The Company has estimated its fiscal 2007 annual effective income tax rate to be 39.8%. 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 2007 was approximately 41.6% as compared to 35.0% for the same period of fiscal 2006. The effective tax rate for the first six months of fiscal 2007 was approximately 34.9% as compared to 24.8% for the same period of fiscal 2006. The effective tax rates for the second quarter of fiscal 2007 as well as the first six months of fiscal 2007 were higher than the effective tax rate for the second quarter and first six months of fiscal 2006 primarily due to the recognition of tax expense associated with the transfer of certain intellectual property rights out of the United States during fiscal 2007 and the release of tax contingency reserves and other accruals related to the conclusion and settlement of a U.S. tax audit in fiscal 2006.

12. Contingencies

Legal Proceedings

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. 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, the Company believes 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 lead plaintiff. The Second Amended Consolidated Class Action Complaint previously alleged 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. That Complaint also alleged that, prior to August 2002, the purported truth regarding the Company's financial condition had not been disclosed to the market. The Company and the individual defendants initially filed a motion to dismiss the lawsuit. In response, on December 15, 2003, the Court dismissed, without prejudice, Gregory Derkacht, the Company's former president and chief executive officer, as a defendant, but denied the motion to dismiss with respect to the remaining defendants, including the Company.

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 of persons that purchased the Company's common stock from January 21, 1999 through November 18, 2002.

On January 27, 2006, the Company and the individual defendants filed a motion for judgment on the pleadings, seeking a dismissal of the lead plaintiff and certain other class members, as well as a limitation on damages based upon plaintiffs' inability to establish loss causation with respect to a large portion of their claims. On February 6, 2006, additional class representative Roger M. Wally filed a motion to withdraw as a class representative and class member. On April 21, 2006, and based upon the pending motion for judgment, a motion to intervene as a class representative was filed by the Louisiana District Attorneys Retirement System ("LDARS"). LDARS previously attempted to be named as lead plaintiff in the case. On July 5, 2006, the Magistrate denied LDARS' motion to intervene, which LDARS appealed to the District Judge.

On May 17, 2006, the Court denied the motion for judgment on the pleadings as being moot based upon the Court's granting lead plaintiff leave to file a Third Amended Complaint ("Third Complaint"), which it did on May 31, 2006. The Third Complaint alleges the same misrepresentations as described above, while simultaneously alleging that the purported truth about the Company's financial condition was being disclosed throughout that time, commencing in April 1999. The Third Complaint sought unspecified damages, interest, fees, and costs.

On June 14, 2006, the Company and the individual defendants filed a motion to dismiss the Third Complaint pursuant to Rules 8 and 12 of the Federal Rules of Civil Procedure. Lead Plaintiff opposed the motion. Prior to any ruling on the motion to dismiss, on November 7, 2006, the parties entered into a Stipulation of Settlement for purposes of settling all of the claims in the Class Action Litigation, with no admissions of wrongdoing by the Company or any individual defendant. The settlement provides for an aggregate cash payment of \$24.5 million of which, net of insurance, the Company contributed approximately \$8.5 million. The settlement was approved by the Court on March 2, 2007 and the Court ordered the case dismissed with prejudice against the Company and the individual defendants.

On March 27, 2007, James J. Hayes, a class member, filed a notice of appeal with the United States Court of Appeals for the Eighth Circuit appealing the Court's order. The Company responded to this appeal in accordance with the Court of Appeals' orders and procedures. The appeal has not yet been decided.

Derivative Litigation. As set forth below in footnote 14, on May 16, 2007 a purported stockholder derivative action was filed in the United States District Court for the Southern District of New York, which lawsuit names certain former and current officers, and all of the current directors, of the Company.

13. Assets of Business Transferred Under Contractual Arrangement

On September 29, 2006, the Company entered into an agreement whereby certain assets and liabilities related to the Company's MessagingDirect business and WorkPoint product line were conveyed to an unrelated party for a total selling price of \$3.0 million. Net assets with a book value of \$0.1 million were transferred under the agreement. At September 30, 2006, the Company had \$1.3 million of assets related to this transfer recorded in other current assets, and \$1.2 million of liabilities recorded in other current liabilities.

An initial payment of \$0.5 million was paid to the Company on October 2, 2006. The remaining \$2.5 million is to be paid in installments through 2010. In accordance with the terms of the Asset Purchase Agreement, the Company has certain obligations to fulfill on behalf of the buyer. Among other things, the Company is obligated to provide continuing support for certain customers of the aforementioned product lines by furnishing a certain level of staffing to provide the support as well as administrative services for a period after the transaction. The Company will be reimbursed for such services at a rate equal to cost plus five percent. Additionally, the Company will remain a reseller of these products for a royalty fee of 50% of revenues generated from sales. The Company signed a termination agreement for the Edmonton, Canada office lease and all further obligations effective March 31, 2007.

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Based on the continuing relationship and involvement subsequent to the closing date, uncertainty regarding collectability of the note receivable, as well as the level of financing provided by the Company, the assets and liabilities to be divested were classified in other current assets and accrued and other current liabilities within the Company's consolidated balance sheet at September 30, 2006. During the first quarter of fiscal 2007, the Company collected \$0.5 million. As a result, the net assets have been written down to zero and the Company recognized a pretax gain in the first quarter of fiscal 2007 of \$0.4 million which is recorded in other income (expense) in the accompanying consolidated statement of operations for the six months ended March 31, 2007. The Company will recognize gains in future periods as the remaining \$2.5 million of payments are received.

14. Subsequent Events

In March 2007, the Company's Board of Directors approved an increase of \$100 million to the Company's current repurchase authorization for the purchase of common stock, bringing the total authorization to \$210 million, of which approximately \$133 million remains available as of March 31, 2007. As of March 31, 2007, the Company has purchased approximately 2.8 million shares for approximately \$77.0 million. Purchases are made from time to time as market and business conditions warrant, in open market, negotiated or block transactions, subject to applicable laws, rules and regulations. In June and July 2007, the Company purchased 490,720 shares at an average price of \$33.87 per share.

As of July 31, 2007, the Company has incurred approximately \$1.4 million of expense, primarily professional fees, in the third and fourth quarters of fiscal 2007 related to the historical stock option review, preparation of restated historical financial information, and working towards becoming current with its filings with the SEC.

Subsequent to March 31, 2007, the Company obtained certain extensions in connection with the delivery of financial statements and related matters under financing arrangements for its bank debt. The Company's current extensions under the credit facilities expire on August 13, 2007 for its quarterly financial statements for the fiscal quarter ended March 31, 2007. The extensions for the Company's quarterly financial statements for the fiscal quarter ended June 30, 2007 expire the earlier of (i) 45 days after delivery of the Company's quarterly financial statements for the fiscal quarter ended March 31, 2007, and (ii) October 1, 2007.

On April 2, 2007, the Company acquired Stratasoft Sdn Bhd ("Stratasoft"), a leading provider of electronic payment solutions in Malaysia. This acquisition will compliment the Company's strategy to move to a direct model in selected markets in Asia. Malaysia is a progressive payments market that consistently shows evidence of cutting edge payments deployment and thinking. This acquisition will also provide a platform to develop the Company's regional low cost services center strategy. Stratasoft was purchased for \$2.9 million in cash. The Company will pay an additional aggregate amount of up to \$1.2 million (subject to foreign currency fluctuations) to the sellers if Stratasoft achieves certain financial targets set forth in the purchase agreement for the periods ending December 31, 2007 and December 31, 2008.

On May 16, 2007, Thomas J. Lieven filed a purported stockholder derivative action in the United States District Court for the Southern District of New York. The lawsuit names certain former and current officers, all of the current directors and certain former directors as individual defendants. The Company is named as a nominal defendant. The plaintiff makes allegations related to the Company's historical stock option granting practices, and asserts claims on behalf of the Company against the individual defendants under Section 14(a) of the Securities Exchange Act of 1934 and Rule 14a-9, as well as state law claims for breach of fiduciary duties, abuse of control, gross mismanagement, constructive fraud, waste of corporate assets and unjust enrichment.

On July 24, 2007, the stockholders of the Company approved the adoption of an Amended and Restated Certificate of Incorporation to change the Company name from "Transaction Systems Architects, Inc." to "ACI Worldwide, Inc." The Company has been marketing its products and services under the ACI Worldwide brand since 1993 and has gained significant market recognition under this brand name. Historically, the Company operated with three business units: ACI Worldwide, Insession Technologies and Intranet Worldwide. In the first quarter of fiscal 2006, the Company restructured its organization combining the products and services within these three business units into one operating unit under the ACI Worldwide name.

On July 24, 2007, the stockholders of the Company approved the First Amendment to the 2005 Incentive Plan which increased

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the number of shares authorized for issuance under the plan from 3,000,000 to 5,000,000 and contained certain other amendments.

In July 2007, the Company locked in a fixed interest rate of 6.125% on the existing \$75 million revolving credit facility.

In June 2007, the Company received \$0.5 million from escrow for certain contingencies assumed in the acquisition of S2 Systems in July 2005. As of June 30, 2007, \$2.5 million in escrow funds remain for potential contingencies and are scheduled for settlement in July 2008.

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," "we believe," "we anticipate," "we expect," "we plan," "we will," "we are well positioned," and words and phrases of similar impact, and include, but are not limited to, statements regarding future operations, business strategy, business environment and key trends, as well as statements related to expected financial and other benefits from our acquisition of eps Electronic Payment Systems AG, P&H Solutions, Inc. and Visual Web Solutions, Inc. and those related to our organizational restructuring activities. 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 incorrect. They may be based on inaccurate assumptions or may not account for known or unknown risks and uncertainties. Consequently, no forward-looking statement is guaranteed, and our actual future results may vary materially from the results expressed or implied in our forward-looking statements. The cautionary statements in this report expressly qualify all of our forward-looking statements. In addition, we are not obligated, and do not intend, to update any of our 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 in Part III Item 1A in the section entitled "Risk Factors — Factors That May Affect Our Future Results or The Market Price of Our Common Stock", and those discussed in Part I Item 1A in the section entitled "Risk Factors — Factors That May Affect Our Future Results or the Market Price of Our Common Stock" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

The following discussion should be read together with our financial statements and related notes contained in this report and with the financial statements and related notes and Management's Discussion & Analysis in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006. Results for the quarter and six months ended March 31, 2007 are not necessarily indicative of results that may be attained in the future.

Overview

We develop, market, install and support a broad line of software products and services primarily focused on facilitating electronic payments. In addition to our own products, we distribute, or act as a sales agent for, software developed by third parties. Our 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. Our products and services are used principally by financial institutions, retailers and electronic payment processors, both in domestic and international markets. Accordingly, our business and operating results are influenced by trends such as information technology spending levels, the growth rate of the electronic payments industry, mandated regulatory changes, and changes in the number and type of customers in the financial services industry. Our products are marketed under the ACI Worldwide brand.

We derive a majority of our revenues from non-domestic operations and believe our greatest opportunities for growth exist largely in international markets. Refining our global infrastructure is a critical component of driving our growth. We have launched a globalization strategy which includes elements intended to streamline our supply chain and provide low-cost centers of expertise to support a growing international customer base. In fiscal 2006, we established a new subsidiary in Ireland to serve as the focal point for certain international product development and commercialization efforts. This subsidiary will oversee remote software development operations in Romania and elsewhere, as well as manage certain of our intellectual property rights. We are also seeking to take a direct selling and support strategy in certain countries where historically we have used third-party distributors to represent our products, in an effort to develop closer relationships with our customers and develop a stronger overall position in those countries. We also moved our principal executive offices to New York City in September 2006 to more strategically manage our global infrastructure.

We have launched a service called ACI On Demand, wherein we will host our payment systems and sell them as a service to banks, retailers and processors.

During the six months ended March 31, 2007, we were conducting an independent review of historical stock option grants, preparing restated historical financial information, and working towards becoming current on our filings with the Securities and Exchange Commission ("SEC"). This process continued subsequent to the end of the quarter. The details of the

investigation and the conclusions reached by management, including restated historical financial information, are more fully described in our Form 10-K for the year ended September 30, 2006 which was filed with SEC on May 11, 2007. As a result of the historic stock option review and the delay in filing our Form 10-K for the fiscal year ended September 30, 2006, we are not current with our SEC reporting obligations. As previously disclosed, we are working to become current as soon as possible. Our efforts to become current may result in additional expenses as well as further diversion of management's time and resources.

On July 24, 2007, stockholders approved the adoption of an Amended and Restated Certificate of Incorporation to change our name from "Transaction Systems Architects, Inc." to "ACI Worldwide, Inc." We have been marketing our products and services under the ACI Worldwide brand since 1993 and have gained significant market recognition under this brand name. Historically, we operated with three business units: ACI Worldwide, Insession Technologies and Intranet Worldwide. In the first quarter of fiscal 2006, we restructured our organization combining the products and services within these three business units into one operating unit under the ACI Worldwide name.

Key trends that currently impact our strategies and operations include:

- **Increasing electronic payment transaction volumes.** Electronic payment volumes continue to increase around the world, taking market share from traditional cash and check transactions. We commissioned an industry study that determined that electronic payment volumes are expected to grow at approximately 13% per year for the next five years, with varying growth rates based on the type of payment and part of the world. We leverage the growth in transaction volumes through the licensing of new systems to customers whose older systems cannot handle increased volume and through the licensing of capacity upgrades to existing customers.
- **Increasing competition.** The electronic payments market is highly competitive and subject to rapid change. Our competition comes from in-house information technology departments, third-party electronic payment processors and third-party software companies located both within and outside of the United States. Many of these companies are significantly larger than us and have significantly greater financial, technical and marketing resources. As electronic payment transaction volumes increase, third-party processors tend to provide competition to our solutions, particularly among customers that do not seek to differentiate their electronic payment offerings. As consolidation in the financial services industry continues, we anticipate that competition for those customers will intensify.
- **Aging payments software.** In many markets, electronic payments are processed using software developed by internal information technology departments, much of which was originally developed over ten years ago. Increasing transaction volumes, industry mandates and the overall costs of supporting these older technologies often serve to make these older systems obsolete, creating opportunities for us to replace this aging software with newer and more advanced products.
- **Adoption of open systems technology.** In an effort to leverage lower-cost computing technologies and current technology staffing and resources, many financial institutions, retailers and electronic payment processors are seeking to transition their systems from proprietary technologies to open technologies such as Windows, UNIX and Linux. Our continued investment in open systems technologies is, in part, designed to address this demand.
- **Electronic payments fraud and compliance.** As electronic payment transaction volumes increase, criminal elements continue to find ways to commit a growing volume of fraudulent transactions using a wide range of techniques. Financial institutions, retailers and electronic payment processors continue to seek ways to leverage new technologies to identify and prevent fraudulent transactions. Due to concerns with international terrorism and money laundering, financial institutions in particular are being faced with increasing scrutiny and regulatory pressures. We continue to see opportunity to offer our fraud detection solutions to help customers manage the growing levels of electronic payment fraud and compliance activity.
- **Adoption of smartcard technology.** In many markets, card issuers are being required to issue new cards with embedded chip technology. Chip-based cards are more secure, harder to copy and offer the opportunity for multiple functions on one card (e.g. debit, credit, electronic purse, identification, health records, etc.). The Europay/Mastercard/Visa (“EMV”) standard for issuing and processing debit and credit card transactions has emerged as the global standard, with many regions throughout the world working on EMV rollouts. The primary benefit of EMV deployment is a reduction in electronic payment fraud, with the additional benefit that the core infrastructure necessary for multi-function chip cards is being put in place (e.g. chip card readers in ATM’s and POS devices). We are working with many customers around the world to facilitate EMV deployments, leveraging several of our solutions.

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- **Single Euro Payments Area (“SEPA”) and Faster Payments Mandates.** The SEPA and Faster Payment initiatives, primarily focused on the European Economic Community and the United Kingdom, are designed to facilitate lower costs for cross-border payments and facilitate reduced timeframes for settling electronic payment transactions. Our retail and wholesale banking solutions provide key functions that help financial institutions address these mandated regulations.
 - **Financial institution consolidation.** Consolidation continues on a national and international basis, as financial institutions seek to add market share and increase overall efficiency. There are several potential negative effects of increased consolidation activity. Continuing consolidation of financial institutions may result in a lower number of existing and potential customers for our products and services. Consolidation of two of our customers could result in reduced revenues if the combined entity were to negotiate greater volume discounts or discontinue use of certain of our products. Additionally, if a non-customer and a customer combine and the combined entity in turn decide to forego future use of our products, our revenue would decline. Conversely, we could benefit from the combination of a non-customer and a customer when the combined entity continues use of our products and, as a larger combined entity, increases its demand for our products and services. We tend to focus on larger financial institutions as customers, often resulting in our solutions being the solutions that survive in the consolidated entity.
 - **Electronic payments convergence.** As electronic payment volumes grow and pressures to lower overall cost per transaction increase, financial institutions are seeking methods to consolidate their payment processing across the enterprise. We believe that the strategy of using service-oriented-architectures to allow for re-use of common electronic payment functions such as authentication, authorization, routing and settlement will become more common. Using these techniques, financial institutions will be able to reduce costs, increase overall service levels, enable one-to-one marketing in multiple bank channels and manage enterprise risk. Our reorganization was, in part, focused on this trend, by facilitating the delivery of integrated payment functions that can be re-used by multiple bank channels, across both the consumer and wholesale bank. While this trend presents an opportunity for us, it may also expand the competition from third-party electronic payment technology and service providers specializing in other forms of electronic payments. Many of these providers are larger than us and have significantly greater financial, technical and marketing resources.

Several other factors related to our business may have a significant impact on our operating results from year to year. 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 we 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 our products often cause revenues related to sales generated in one period to be deferred and recognized in later periods. For arrangements in which services revenue is deferred, related direct and incremental costs may also be deferred. Additionally, while the majority of our contracts are denominated in U.S. dollars, a substantial portion of our sales are made, and some of our 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 recognition of gains or losses for that period.

We continue to seek ways to grow, through both organic sources and acquisitions. We continually look for potential acquisitions designed to improve our solutions’ breadth or provide access to new markets. As part of our acquisition strategy, we seek acquisition candidates that are strategic, capable of being

integrated into our operating environment, and financially accretive to our financial performance.

We continue to evaluate strategies intended to improve our overall effective tax rate. Our 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 our effective tax rate to fluctuate from period to period. During the third quarter of fiscal 2006, we began to manage certain intellectual property rights from our Irish subsidiary as part of our overall globalization strategy. We expect these globalization efforts to result in future improvements in profitability and reductions in our overall effective tax rate.

Acquisitions

On May 31, 2006, we acquired eps Electronic Payment Systems AG (“eps AG”), headquartered in Frankfurt, Germany. eps AG, with operations in Germany, Romania, the United Kingdom and other European locations, offers electronic payment and complementary solutions focused largely in the German market. The acquisition of eps AG will provide us additional opportunities to sell our value added solutions, such as Proactive Risk Manager and Smart Chip Manager, into the German marketplace, as well as to sell eps AG’ testing and dispute management solutions into markets beyond Germany. In addition, eps

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AG’ presence in Romania will help us more rapidly develop our global offshore development and support capabilities.

On September 29, 2006, we completed the acquisition of P&H Solutions, Inc. (“P&H”). P&H is a leading provider of enterprise business banking solutions and complements our existing business. The acquisition of P&H will extend our wholesale payments solutions suite, provide us with an Application Software Provider (“ASP”)-based offering and allow us to distribute P&H’s solutions into international markets through our global distribution channel.

On February 7, 2007, we acquired Visual Web Solutions, Inc. (“Visual Web”). Visual Web markets trade finance and web-based cash management solutions, primarily to financial institutions in the Asia-Pacific region.

On April 2, 2007, we acquired Stratasoft Sdn. Bhd (“Stratasoft”). Stratasoft is a Kuala Lumpur based company focused on the provision of mainframe based payments systems to the Malaysian market. Prior to the acquisition, Stratasoft had been a distributor of our OCM 24 product within the Malaysian market since 1995.

Backlog

Included in backlog estimates are all software license fees, maintenance fees and services specified in executed contracts, as well as revenues from assumed contract renewals to the extent that we believe recognition of the related revenue will occur within the corresponding backlog period. We have historically included assumed renewals in backlog estimates based upon automatic renewal provisions in the executed contract and our historic experience with customer renewal rates.

Our 60-month backlog estimate represents expected revenues from existing customers using the following key assumptions:

- Maintenance fees are assumed to exist for the duration of the license term for those contracts in which the committed maintenance term is less than the committed license term.
- License and facilities management arrangements are assumed to renew at the end of their committed term at a rate consistent with our historical experiences.
- Non-recurring license arrangements are assumed to renew as recurring revenue streams.
- Foreign currency exchange rates are assumed to remain constant over the 60-month backlog period for those contracts stated in currencies other than the U.S. dollar.
- Our pricing policies and practices are assumed to remain constant over the 60-month backlog period.

In computing our 60-month backlog estimate, the following items are specifically not taken into account:

- Anticipated increases in transaction volumes in customer systems.
- Optional annual uplifts or inflationary increases in recurring fees.
- Services engagements, other than facilities management, are not assumed to renew over the 60-month backlog period.
- The potential impact of merger activity within our markets and/or customers is not reflected in the computation of 60-month backlog.

The following table sets forth our 60-month backlog estimate, by geographic region, as of March 31, 2007, December 31, 2006, and September 30, 2006 (in millions):

	March 31, 2007	December 31, 2006	September 30, 2006
Americas	\$ 643	\$ 644	\$ 671
EMEA	474	444	433
Asia/Pacific	127	125	122
	<u>\$ 1,244</u>	<u>\$ 1,213</u>	<u>\$ 1,226</u>

We also report 12-month backlog estimates, segregated between monthly recurring and non-recurring revenues, using a methodology consistent with the 60-month calculation. Monthly recurring revenues include all monthly license fees, maintenance fees and facilities management fees. Non-recurring revenues include other software license fees and services. Amounts included in 12-month backlog estimates assume renewal of one-time license fees on a monthly fee basis if such renewal is expected to

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occur in the next 12 months. The following table sets forth our 12-month backlog estimate, by geographic region, as of March 31, 2007, December 31, 2006, and September 30, 2006 (in millions):

	March 31, 2007		
	Monthly Recurring	Non-Recurring	Total
Americas	\$ 122	\$ 35	\$ 157
EMEA	68	53	121
Asia/Pacific	24	5	29
	<u>\$ 214</u>	<u>\$ 93</u>	<u>\$ 307</u>

	December 31, 2006		
	Monthly Recurring	Non-Recurring	Total
Americas	\$ 122	\$ 36	\$ 158
EMEA	68	38	106
Asia/Pacific	24	5	29
	<u>\$ 214</u>	<u>\$ 79</u>	<u>\$ 293</u>

	September 30, 2006		
	Monthly Recurring	Non-Recurring	Total
Americas	\$ 122	\$ 32	\$ 154
EMEA	67	39	106
Asia/Pacific	23	6	29
	<u>\$ 212</u>	<u>\$ 77</u>	<u>\$ 289</u>

Our 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 the customer's industry or geographic location, or we may experience delays in the development or delivery of products or services specified in customer contracts which may cause the actual renewal rates and amounts to differ from historical experiences. Changes in foreign currency exchange rates may also impact the amount of revenue actually recognized in future periods. Accordingly, there can be no assurance that contracts included in backlog estimates will actually generate the specified revenues or that the actual revenues will be generated within the corresponding 12-month or 60-month period. Additionally, because backlog estimates are a Non-GAAP financial measure, the estimates are not subject to the same level of internal review or controls as a GAAP financial measure.

RESULTS OF OPERATIONS

Second Quarter of Fiscal 2007 vs. Second Quarter of Fiscal 2006

The following table presents the consolidated statements of operations as well as the percentage relationship to total revenues of items included in our Consolidated Statements of Operations (amounts in thousands):

	Three Months Ended March 31,			Three Months Ended March 31,	
	2007	2006	% Change	2007 As a % of total revenues	2006
Revenues:					
Initial license fees (ILFs)	\$ 23,259	\$ 30,834	(24.6)%	25.9%	34.3%
Monthly license fees (MLFs)	15,265	16,896	(9.7)%	17.0%	18.8%
Software license fees	38,524	47,730	(19.3)%	42.8%	53.1%
Maintenance fees	29,901	24,746	20.8%	33.2%	27.6%
Services	21,523	17,357	24.0%	23.9%	19.3%
Total revenues	<u>89,948</u>	<u>89,833</u>	0.1%	<u>100.0%</u>	<u>100.0%</u>
Expenses:					
Cost of software license fees	11,193	7,505	49.1%	12.4%	8.4%
Cost of maintenance and services	23,351	19,056	22.5%	26.0%	21.2%
Research and development	12,041	9,978	20.7%	13.4%	11.1%
Selling and marketing	16,799	16,529	1.6%	18.7%	18.4%
General and administrative	26,353	15,563	69.3%	29.3%	17.3%
Total expenses	<u>89,737</u>	<u>68,631</u>	30.8%	<u>99.8%</u>	<u>76.4%</u>
Operating income	211	21,202	(99.0)%	0.2%	23.6%
Other income (expense):					
Interest income	1,014	1,586	(36.1)%	1.1%	1.8%
Interest expense	(1,597)	(87)	#	(1.8)%	(0.1)%
Other, net	(337)	354	#	(0.4)%	0.4%
Total other income (expense)	<u>(920)</u>	<u>1,853</u>	#	<u>(1.0)%</u>	<u>2.1%</u>
Income (loss) before income taxes	(709)	23,055	#	(0.8)%	25.7%

Income tax benefit (provision)	295	(8,069)	#	0.3%	(9.0)%
Net income (loss)	<u>\$ (414)</u>	<u>\$ 14,986</u>	#	<u>(0.5)%</u>	<u>16.7%</u>

- Denotes a variance of more than 100%.

The sum of the amounts and percentages may not equal the totals for the period due to the effects of rounding.

Revenues

Total revenues for the second quarter of fiscal 2007 were flat as compared to corresponding period of fiscal 2006. Included in the second quarter of fiscal 2007 revenue with no corresponding amount in the second quarter of fiscal 2006 was approximately \$9.6 million of revenue related to acquired businesses. Excluding the impact of the acquired businesses, total revenues decreased primarily as a result of a \$10.0 million, or 20.8%, decrease in software license fee revenues, and a \$2.0 million, or 11.2% decrease in services revenue, partially offset by a \$2.4 million, or 9.7%, increase in maintenance fee revenues.

The decrease in software license fee revenues, excluding the impact of acquired businesses, during the second quarter of fiscal 2007, as compared to the corresponding period of fiscal 2006 is attributable to a decline in initial license fees, which was impacted by the mix of sales in the quarter and the timing of revenue recognition primarily in the EMEA reportable operating segment. The sales mix and revenue timing in the quarter has the corresponding effect of increased backlog and, to the extent that

customers were billed, increasing deferred revenue, in the quarter. Additionally, as contracts are renewed, the timing of revenue recognition may change from historical patterns, which is driving a decline in monthly license fees.

The increase in maintenance fee revenues, excluding the impact of acquired businesses, during the second quarter of fiscal 2007, as compared to the corresponding period of fiscal 2006, is primarily the result of an increase in the overall installation base in the EMEA and Asia-Pacific reportable operating segments.

The decrease in services revenues, excluding the impact of acquired businesses, for the second quarter of fiscal 2007, as compared to the second quarter of fiscal 2006, resulted primarily from decreased activity in the Americas reportable operating segment, and as a result of timing differences referred to above which primarily impacted the EMEA reportable operating segment in the quarter.

Expenses

Total operating expenses for the second quarter of fiscal 2007 increased \$21.1 million, or 30.8%, as compared to the same period of fiscal 2006. Included in the second quarter of fiscal 2007 operating expenses with no corresponding amount in the second quarter of fiscal 2006 was approximately \$15.4 million of operating expenses related to acquired businesses. Additionally, there were approximately \$5.9 million of costs incurred related to the historical stock option review, preparation of restated historical financial information, cash settlement of vested options, and working towards becoming current with our filings with the SEC in the second quarter of fiscal 2007.

Cost of software license fees for the second quarter of fiscal 2007 increased \$3.7 million, or 49.1%, as compared to the corresponding period of fiscal 2006. The increase resulted primarily from expenses of \$2.9 million related to acquired businesses.

Cost of maintenance and services for the second quarter of fiscal 2007 increased \$4.3 million, or 22.5%, as compared to the corresponding period of fiscal 2006. The increase is primarily from expenses of \$4.0 million related to acquired businesses, and the reallocation of resources from development to service activities, offset partially by an increase in deferred services costs.

Research & Development (“R&D”) costs for the second quarter of fiscal 2007 increased \$2.1 million, or 20.7%, as compared to the corresponding period of fiscal 2006. The increase resulted from expenses of \$2.5 million related to acquired businesses, which was offset partially by a reallocation of resources from development to service activities.

Selling and marketing costs for the second quarter of fiscal 2007 increased \$0.3 million, or 1.6%, as compared to the corresponding period of fiscal 2006. The increase resulted from expenses of \$2.5 million related to acquired businesses, offset by lower costs which are the result of sales productivity initiatives. There was also a decrease in advertising and promotion costs due to the timing of certain marketing events and trade shows.

General and administrative costs for the second quarter of fiscal 2007 increased \$10.8 million, or 69.3%, as compared to the corresponding period of fiscal 2006. Approximately \$5.9 million of the increase in general and administrative costs during the second quarter of fiscal 2007, as compared to the same period of fiscal 2006, was due to expenses incurred related to the historical stock option review, preparation of restated historical financial information, cash settlement of vested options, and working towards becoming current with our filings with the SEC. Additionally, included in fiscal 2007 costs with no corresponding amount in fiscal 2006 are general and administrative costs of approximately \$3.5 million related to acquired businesses. The remaining increase is the result of an increase in infrastructure investment, increased depreciation expense, and the timing of travel and entertainment expense.

Other Income and Expense

Interest income for the second quarter of fiscal 2007 decreased \$0.6 million, or 36.1%, as compared to the corresponding period of fiscal 2006. The primary reason for the decrease in interest income is due to a decrease in interest bearing assets in the second quarter of fiscal 2007 as compared to the corresponding period of fiscal 2006. Additionally, we recorded \$0.2 million of interest income related to a tax refund recorded in the second quarter of fiscal 2006 that did not recur in fiscal 2007.

Interest expense for the second quarter of fiscal 2007 increased \$1.5 million as compared to the same period of fiscal 2006. The increase is attributable to \$75 million of borrowings under the revolving credit facility used to fund the purchase of P&H in the fourth quarter of fiscal 2006.

Other income and expense consists of foreign currency gains and losses and other non-operating items.

Income Taxes

It is our policy to report income tax expense for interim reporting periods using an estimated annual effective income tax rate. We have estimated our fiscal 2007 annual effective income tax rate to be 39.8%. 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.

During the second quarter of fiscal 2007 our effective tax rate of 41.6% was materially in line with our estimated overall annual effective tax rate of 39.8%. The effective tax rate for the second quarter of fiscal 2007 was higher than the effective tax rate of 35% we reported for the second quarter of 2006, primarily due to the recognition of tax expense associated with transfer of certain intellectual property rights out of the United States.

First Six Months of Fiscal 2007 vs. First Six Months of Fiscal 2006

The following table presents the consolidated statements of operations as well as the percentage relationship to total revenues of items included in our Consolidated Statements of Operations (amounts in thousands):

	Six Months Ended March 31,			Six Months Ended March 31,	
	2007	2006	% Change	As a % of total revenues	
	2007	2006		2007	2006
Revenues:					
Initial license fees (ILFs)	\$ 49,207	\$ 56,561	(13.0)%	26.9%	32.3%
Monthly license fees (MLFs)	30,502	34,561	(11.7)%	16.6%	19.8%
Software license fees	79,709	91,122	(12.5)%	43.5%	52.1%
Maintenance fees	58,630	50,064	17.1%	32.0%	28.6%
Services	44,898	33,722	33.1%	24.5%	19.3%
Total revenues	183,237	174,908	4.8%	100.0%	100.0%
Expenses:					
Cost of software license fees	21,404	14,440	48.2%	11.7%	8.3%
Cost of maintenance and services	47,498	39,947	18.9%	25.9%	22.8%
Research and development	24,026	19,730	21.8%	13.1%	11.3%
Selling and marketing	34,949	32,541	7.4%	19.1%	18.6%
General and administrative	50,184	32,533	54.3%	27.4%	18.6%
Total expenses	178,061	139,191	27.9%	97.2%	79.6%
Operating income	5,176	35,717	(85.5)%	2.8%	20.4%
Other income (expense):					
Interest income	1,899	4,513	(57.9)%	1.0%	2.6%
Interest expense	(3,057)	(116)	#	(1.7)%	(0.1)%
Other, net	(630)	(12)	#	(0.3)%	(0.0)%
Total other income (expense)	(1,788)	4,385	#	(1.0)%	2.5%
Income before income taxes	3,388	40,102	(91.6)%	1.8%	22.9%
Income tax provision	(1,181)	(9,926)	(88.1)%	(0.6)%	(5.7)%
Net income	\$ 2,207	\$ 30,176	(92.7)%	1.2%	17.3%

- Denotes a variance of more than 100%.

The sum of the amounts and percentages may not equal the totals for the period due to the effects of rounding.

Revenues

Total revenues for the first six months of fiscal 2007 increased \$8.3 million, or 4.8%, as compared to corresponding period of fiscal 2006. Included in the first six months of fiscal 2007 revenue with no corresponding amount in the first six months of fiscal 2006 was approximately \$18.9 million of revenue related to acquired businesses. Excluding the impact of the acquired businesses, total revenues decreased primarily as a result of a \$13.0 million, or 14.2%, decrease in software license fee revenues, and a \$1.0 million, or 2.9% decrease in services revenue, partially offset by a \$3.4 million, or 6.8%, increase in maintenance fee revenues.

The decrease in software license fee revenues, excluding the impact of acquired businesses, during the first six months of fiscal 2007, as compared to the corresponding period of fiscal 2006 is attributable to a decline in initial license fees, which was impacted by the mix of sales in the quarter and the timing of revenue recognition primarily in the EMEA reportable operating segment. The sales mix and revenue timing in the quarter has the corresponding effect of increased backlog and, to the extent that customers were billed, increasing deferred revenue, in the quarter. Additionally, as contracts are renewed, the timing of revenue recognition may change from historical patterns, which is driving a decline in monthly license fees.

The increase in maintenance fee revenues, excluding the impact of acquired businesses, during the first six months of fiscal 2007, as compared to the corresponding period of fiscal 2006, is primarily the result of an increase in the overall installation base in the EMEA and Asia-Pacific reportable operating segments.

The decrease in services revenues, excluding the impact of acquired businesses, for the first six months of fiscal 2007, as compared to the corresponding period of fiscal 2006, resulted primarily from decreased activity in the Americas reportable operating segment.

Expenses

Total operating expenses for the first six months of fiscal 2007 increased \$38.9 million, or 27.9%, as compared to the same period of fiscal 2006. Included in the first six months of fiscal 2007 operating expenses with no corresponding amount in the first six months of fiscal 2006 was approximately \$30.6 million of operating expenses related to acquired businesses. Additionally, there were approximately \$8.6 million of costs incurred related to the historical stock option review, preparation of restated historical financial information, cash settlement of vested options, and working towards becoming current with our filings with the SEC in the first six months of fiscal 2007.

Cost of software license fees for the first six months of fiscal 2007 increased \$7.0 million, or 48.2%, as compared to the corresponding period of fiscal 2006. The increase resulted primarily from expenses of \$5.5 million related to acquired businesses and an increase in the distribution costs of products.

Cost of maintenance and services for the first six months of fiscal 2007 increased \$7.6 million, or 18.9%, as compared to the corresponding period of fiscal 2006. The increase resulted from expenses of \$7.9 million related to acquired businesses and the reallocation of resources from development to service activities.

R&D costs for the first six months of fiscal 2007 increased \$4.3 million, or 21.8%, as compared to the corresponding period of fiscal 2006. The increase resulted from expenses of \$5.1 million related to acquired businesses, which was offset partially by a reallocation of resources from development to service activities.

Selling and marketing costs for the first six months of fiscal 2007 increased \$2.4 million, or 7.4%, as compared to the corresponding period of fiscal 2006. The increase resulted from expenses of \$4.9 million related to acquired businesses, offset by lower costs which are the result of sales productivity initiatives.

General and administrative costs for the first six months of fiscal 2007 increased \$17.7 million, or 54.3%, as compared to the corresponding period of fiscal 2006. Approximately \$8.6 million of the increase in general and administrative costs was due to expenses incurred related to the historical stock option review, preparation of restated historical financial information, cash settlement of vested options, and working towards becoming current with our filings with the SEC during the first six months of fiscal 2007. Additionally, included in fiscal 2007 costs with no corresponding amount in fiscal 2006 are general and administrative costs of approximately \$7.2 million related to acquired businesses. The remaining increase is the result of an increase in infrastructure investment, increased depreciation expense, and the timing of travel and entertainment expense.

Other Income and Expense

Interest income for the first six months of fiscal 2007 decreased \$2.6 million, or 57.9%, as compared to the corresponding period of fiscal 2006. The primary reason for the decrease in interest income is due to \$2.0 million of interest income related to a tax refund recorded in the first six months of fiscal 2006 that did not recur in fiscal 2007 and a decrease in interest bearing assets in the first six months of fiscal 2007 as compared to the corresponding period of fiscal 2006.

Interest expense for the first six months of fiscal 2007 increased \$2.9 million as compared to the same period of fiscal 2006. The increase is primarily attributable to \$75 million of borrowings under the revolving credit facility used to fund the purchase of P&H in the fourth quarter of fiscal 2006.

Other income and expense consists of foreign currency gains and losses and other non-operating items, including a gain of \$0.4 million related to the transfer of assets under a contractual arrangement in the first six months of fiscal 2007.

Income Taxes

During the first six months of fiscal 2007 our effective tax rate of 34.9% was lower than our estimated overall annual effective tax rate of 39.8%. The effective tax rate for the first six months of fiscal 2007 was positively impacted primarily by a U.S. tax law change during the period that extended the research and development tax credit. Our estimated overall annual effective tax rate is higher than statutory rates primarily due to the recognition of tax expense associated with the transfer of certain intellectual property rights out of the U.S. The effective tax rate for the first six months of fiscal 2007 was higher than the effective tax rate of 24.8% we reported for the first six months of fiscal 2006, primarily due to the release of tax contingency reserves and other accruals related to the conclusion and settlement of a U.S. tax audit in the first six months of fiscal 2006.

Segment Results

The following table presents revenues and operating income for the periods indicated by reportable operating segment. The prior period amounts for operating income have been reclassified to conform to current year presentation which reflect a change in the allocation of corporate and certain global support costs (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2007	2006	2007	2006
Revenues:				
Americas	\$ 52,622	\$ 43,609	\$ 99,756	\$ 87,529
EMEA	28,746	37,356	66,301	71,020
Asia/Pacific	8,580	8,868	17,180	16,359
	<u>\$ 89,948</u>	<u>\$ 89,833</u>	<u>\$ 183,237</u>	<u>\$ 174,908</u>
Operating income (loss):				
Americas	5,603	12,188	8,225	22,854
EMEA	(6,587)	6,381	(5,890)	9,338
Asia/Pacific	1,195	2,633	2,841	3,525
	<u>\$ 211</u>	<u>\$ 21,202</u>	<u>\$ 5,176</u>	<u>\$ 35,717</u>

For the second quarter of fiscal 2007 compared to the corresponding period of fiscal 2006, revenues increased in the Americas reportable operating segment by \$9.0 million, or 20.7%, decreased in the EMEA reportable operating segment by \$8.6 million, or 23.1%, and decreased in the Asia/Pacific reportable operating segment by \$0.3 million, or 3.3%.

For the second quarter of fiscal 2007 compared to the corresponding period of fiscal 2006, operating income (loss) decreased in the Americas reportable operating segment by \$6.6 million, or 54.0%, in the EMEA reportable operating segment by \$13.0 million, or 203.2%, and in the Asia/Pacific reportable operating segment by \$1.4 million, or 54.6%. The decreases in operating income (loss) in the EMEA and Americas reportable operating segments are primarily due to expenses related to acquired businesses as well as the costs incurred related to the historical stock option review, preparation of restated historical financial information, cash settlement of vested options, and working towards becoming current with our filings with the SEC in the second quarter of fiscal 2007. The decrease in operating income (loss) in EMEA is also the direct result of lower revenue.

For the first six months of fiscal 2007 compared to the corresponding period of fiscal 2006, revenues increased in the Americas

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reportable operating segment by \$12.2 million, or 14.0%, decreased in the EMEA reportable operating segment by \$4.7 million, or 6.6%, and increased in the Asia/Pacific reportable operating segment by \$0.8 million, or 5.0%.

For the first six months of fiscal 2007 compared to the corresponding period of fiscal 2006, operating income (loss) decreased in the Americas reportable operating segment by \$14.6 million, or 64.0%, in the EMEA reportable operating segment by \$15.2 million, or 163.1%, and in the Asia/Pacific reportable operating segment by \$0.7 million, or 19.4%. The decreases in operating income (loss) in the EMEA and Americas reportable operating segments are primarily due to expenses related to acquired businesses as well as the costs incurred related to the historical stock option review, preparation of restated historical financial information, cash settlement of vested options, and working towards becoming current with our filings with the SEC in the second quarter of fiscal 2007. The decrease in operating income (loss) in EMEA is also the direct result of lower revenue.

Revenues and expenses resulting from the acquisition of P&H are included in the Americas reportable operating segment, while revenues and expenses related to eps AG are primarily included in the EMEA reportable operating segment for the quarter and six months ended March 31, 2007. Revenues and expenses related to Visual Web are primarily included in the Asia/Pacific reportable operating segment for the quarter ended March 31, 2007.

Liquidity and Capital Resources

As of March 31, 2007, our principal sources of liquidity consisted of \$96.0 million in cash and cash equivalents and \$75.0 million of unused borrowings under our revolving credit facility. We had bank borrowings of \$75.0 million outstanding under our revolving credit facility as of March 31, 2007. In fiscal 2005, we announced that our board of directors approved a stock repurchase program authorizing us, from time to time as market and business conditions warrant, to acquire up to \$80.0 million of our common stock. In May 2006, our board of directors approved an increase of \$30.0 million to the stock repurchase program, bringing the total of the approved plan to \$110.0 million. During the first six months of fiscal 2007, we repurchased 102,734 shares of our common stock at an average price of \$34.54 per share under this stock repurchase program. In March 2007, our board of directors approved an increase of \$100 million to our current repurchase authorization for purchases of common stock, bringing the total authorization to \$210 million, of which approximately \$133 million remained available as of March 31, 2007.

Under the program through March 31, 2007, we have purchased approximately 2.8 million shares for approximately \$77.0 million. In June 2007, we implemented this previously announced increase to our share repurchase program. Purchases are made from time to time as market and business conditions warrant, in open market, negotiated or block transactions, subject to applicable laws, rules and regulations. In June and July 2007, the Company purchased 490,720 shares at an average price of \$33.87 per share.

We presently estimate that we will incur an additional \$9.4 million in cash outlays, and corresponding expense of \$4.0 million, subsequent to March 31, 2007 for the settlement of vested options that optionees were unable to exercise due to the suspension of option exercises during the period for which we are not current with our filings with the SEC and which would otherwise have expired. The actual amount incurred with respect to the settlement of options depends on the number of options that will expire prior to becoming current on our filings with the SEC, as well as the stock price used to calculate any settlement amount.

We may also decide to use cash 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.

Net cash flows provided by operating activities in the first six months of fiscal 2007 amounted to \$15.4 million as compared to net cash flows provided by operating activities of \$43.2 million during the same period of fiscal 2006. The comparative period decrease in net cash flows from operating activities of \$27.8 million was principally the result of the following items: the payment of a class action litigation settlement of \$8.5 million in the first quarter of fiscal 2007; the payment of \$10.5 million for P&H acquisition-related compensation charges in the first six months of fiscal 2007; the payment of \$6.1 million for professional fees and other costs incurred related to the historical stock option review, preparation of restated financial information, cash settlement of vested options, and working towards becoming current with our filings with the SEC in the first six months of fiscal 2007; and the receipt of a cash refund of \$10.9 million related to the settlement of the IRS audit of tax years 1997 through 2003 during the first six months of fiscal 2006. These items were partially offset by increased cash collections resulting in higher deferred revenues in the first six months of fiscal 2007.

Net cash flows used in investing activities totaled \$23.3 million in the first six months of fiscal 2007 as compared to \$6.7 million used in investing activities during the same period of fiscal 2006. During the first six months of fiscal 2007, we used cash of \$6.1 million to pay costs related to the second closing of the purchase of eps AG, \$0.6 million related to the P&H acquisition, and \$8.2

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million for the acquisition of Visual Web, and other direct acquisition costs. We also used cash of \$6.4 million to purchase software, property and equipment, and \$2.5 million to purchase marketable securities. During the first six months of fiscal 2006, we used cash of \$3.4 million to increase our holding of marketable securities and \$3.3 million to purchase software, property and equipment.

Net cash flows used in financing activities totaled \$6.3 million in the first six months of fiscal 2007 as compared to \$6.7 million used in financing activities during the same period of fiscal 2006. In the first six months of fiscal 2007 and fiscal 2006, we used cash of \$4.4 million and \$14.0 million, respectively, to purchase shares of our common stock under the stock repurchase program. We also made payments to third-party financial institutions, primarily related to debt and capital leases, totaling \$2.0 million during both of the first six months of fiscal 2007 and 2006. In the first six months of fiscal 2006, we received proceeds of \$8.6 million, including corresponding excess tax benefits, from the exercises of stock options.

We realized a minimal increase in cash during the first six months of fiscal 2007 as well as the same period of fiscal 2006 related to foreign exchange rate variances.

We believe that our existing sources of liquidity, including cash on hand and cash provided by operating activities, will satisfy our projected liquidity requirements, which primarily consists of working capital requirements, for the foreseeable future.

Critical Accounting Policies and Estimates

This disclosure is based upon our 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 we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe to be proper and reasonable under the circumstances. We continually evaluate the appropriateness of estimates and assumptions used in the preparation of our 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.

Revenue Recognition

For software license arrangements for which services rendered are not considered essential to the functionality of the software, we recognize 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, we use 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 we have 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, we consider the creditworthiness of the customer, economic conditions in the customer's industry and geographic location, and general economic conditions.

Revenues from newer products are typically recognized upon acceptance or first production use by the customer whereas revenues from mature products 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 we determine 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 our 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 us to recognize revenues from new 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, we generally use the percentage-of-completion method. Under the percentage-of-completion method, we record 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 and profitability under the contract consider amounts due under extended payment terms. For arrangements where we believe it is reasonably assured that no loss will be incurred under the arrangement and fair value for maintenance services does not exist, we use a zero margin approach of applying percentage-of-completion accounting until software customization services are completed. We exclude revenues due on extended payment terms from our current percentage-of-completion computation until such time that collection of the fees becomes probable.

We may execute more than one contract or agreement with a single customer. The separate contracts or agreements may be viewed as one multiple-element arrangement or separate arrangements for revenue recognition purposes. Judgment is required when evaluating the facts and circumstances related to each situation in order to reach appropriate conclusions regarding whether such arrangements are related or separate. Those conclusions can impact the timing of revenue recognition related to those arrangements.

Allowance for Doubtful Accounts

We maintain a general allowance for doubtful accounts based on our historical experience, along with additional customer-specific allowances. We regularly monitor credit risk exposures in our accounts receivable. In estimating the necessary level of our allowance for doubtful accounts, management considers the aging of our accounts receivable, the creditworthiness of our 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 our future provision for doubtful accounts. Specifically, if the financial condition of our 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 we have 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.

Valuation of Intangible Assets and Goodwill

Our business acquisitions typically result in the recording of intangible assets, and the recorded values of those assets may become impaired in the future. As of March 31, 2007 and September 30, 2006, our goodwill and other intangible assets, net of accumulated amortization, were \$242 million and \$234 million, respectively. The determination of the value of such intangible assets requires management to make estimates and assumptions that affect the consolidated financial statements. We assess potential impairments to intangible assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Judgments regarding the existence of impairment indicators and future cash flows related to intangible assets are based on operational performance of our businesses, market conditions and other factors. Although there are inherent uncertainties in this assessment process, the estimates and assumptions used, including estimates of future cash flows, volumes, market penetration and discount rates, are consistent with our internal planning. If these estimates or their related assumptions change in the future, we may be required to record an impairment charge on all or a portion of our intangible assets. Furthermore, we cannot predict the occurrence of future impairment-triggering events nor the impact such events might have on our reported asset values. Future events could cause us to conclude that impairment indicators exist and that intangible assets associated with acquired businesses is impaired. Any resulting impairment loss could have an adverse impact on our results of operations.

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 142, *Goodwill and Other Intangible Assets* (“SFAS No. 142”), we assess goodwill for impairment at least annually. During this assessment, which is completed as of the end of the fiscal year, management relies on a number of factors, including operating results, business plans and anticipated future cash flows. We assess potential impairments to other intangible assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered.

Other intangible assets are amortized using the straight-line method over periods ranging from 18 months to 12 years.

Share-based Compensation

Effective October 1, 2005 we began recording compensation expense associated with share-based awards in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 123 (Revised 2004), *Share-Based Payment* (“SFAS No. 123(R)”). We adopted the modified prospective transition method provided for under SFAS No. 123(R), and consequently have not retroactively adjusted results from prior periods. Under this transition method, beginning in fiscal 2006, compensation cost associated with share-based awards includes (1) amortization related to the remaining unvested portion of share-based awards granted prior to September 30, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and (2) amortization related to share-based awards granted subsequent to September 30, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R).

Under the provisions of SFAS No. 123(R), share-based compensation cost for stock option awards, with vesting based on service criteria only, is estimated at the grant date based on the award’s fair value as calculated by the Black-Scholes option-pricing model and is recognized as expense ratably over the requisite service period. We recognize share-based compensation costs for only those shares that are expected to vest. The impact of forfeitures that may occur prior to vesting is estimated and considered in the amount of expense recognized. Forfeiture estimates will be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Black-Scholes model requires various highly judgmental assumptions including volatility and expected option life. If any of the assumptions used in the Black-Scholes model change significantly, share-based compensation expense may differ materially for future awards from that recorded for existing awards.

We also have stock options outstanding that vest upon attainment of certain market conditions. In order to determine the grant date fair value of these stock options that vest based on the achievement of certain market conditions, a Monte Carlo simulation model is 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.

Long term incentive program performance share awards (“LTIP Performance Shares”) are earned based on the achievement, over a three year period, of performance goals related to certain performance indicators. In order to determine compensation expense to be recorded for these LTIP Performance Shares, each quarter management evaluates the probability that the target performance goals will be achieved, if at all, and the anticipated level of attainment.

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 we 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 our consolidated financial statements, we are required to estimate our 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 us 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 our overall effective tax rate.

To the extent recovery of deferred tax assets is not likely, we record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Although we have considered future taxable income along with prudent and feasible tax planning strategies in assessing the need for a valuation allowance, if we should determine that we would not be able to realize all or part of our 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 we are able to realize our 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.

Recent Accounting Standards

Recently Adopted Accounting Standards

We adopted Statement of Financial Accounting Standards (“SFAS”) No. 154, *Accounting Changes and Error Corrections*, which supersedes APB 20, *Accounting Changes*, and SFAS 3, *Reporting Accounting Changes in Interim Financial Statements*, as of October 1, 2006. SFAS No. 154 changes the method for reporting an accounting change. Under SFAS No. 154, accounting changes must be retrospectively applied to all prior periods whose financial statements are presented, unless the change in accounting principle is due to a new pronouncement that provides other transition guidance or unless application of the

retrospective method is impracticable. Under the retrospective method, companies will no longer present the cumulative effect of a change in accounting principle in their statement of operations for the period of the change. SFAS No. 154 carries forward unchanged APB 20’s guidance for reporting corrections of errors in previously issued financial statements and for reporting changes in accounting estimates. The adoption of SFAS No. 154 had no impact on our financial statements as there have been no accounting changes during the first six months of fiscal 2007.

We adopted EITF Issue No. 06—3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* (“EITF No. 06-3”) as of January 1, 2007. EITF No. 06—3 requires the disclosure of the Company’s accounting policy regarding its gross or net presentation of externally imposed taxes on revenue producing transactions in the notes to the consolidated financial statements. EITF No. 06—3 is effective for the first annual or interim reporting period beginning after December 15, 2006. No additional disclosures are required since our policy is to present revenues net of any taxes collected from customers.

Recently Issued Accounting Standards

In June 2005, the FASB issued FASB Staff Position No. (“FSP”) FAS 143-1, *Accounting for Electronic Equipment Waste Obligations*. FSP FAS 143-1 addresses the accounting for obligations associated with Directive 2002/96/EC on Electrical and Electronic Equipment (the “Directive”) adopted by the European Union (“EU”). FSP FAS 143-1 is effective the later of the Company’s fiscal 2006 or the date that an EU member country in which the Company might have an obligation adopts the Directive. To date, the adoption of FSP FAS 143-1 in those countries which have already adopted the Directive has not had a material effect on our financial position, results of operations or cash flows and we do not expect the adoption of FSP FAS 143-1 by countries in the future to have a material effect on our financial position, results of operations or cash flows.

In June 2006, the FASB ratified EITF No. 06-2 *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences* (“EITF No. 06-2”). EITF No. 06-2 provides guidelines under which sabbatical leave or other similar benefits provided to an employee are considered to accumulate, as defined in FASB Statement 43. If such benefits are deemed to accumulate, then the compensation cost associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period. The provisions of this Issue are effective fiscal years beginning after December 15, 2006 and allow for either retrospective application or a cumulative effect adjustment to accumulated deficit approach upon adoption. We do not expect that the adoption of EITF No. 06-2 will have a material effect on our consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. (“FIN”) 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (“FIN 48”), which establishes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. FIN 48 is effective for our fiscal years beginning after December 15, 2006. We are currently evaluating the impact that this interpretation will have on our financial condition and/or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS No. 157”). SFAS No. 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS No. 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS No. 157 is effective for our 2009 fiscal year, although early adoption is permitted. We are currently assessing the potential effect, if any, of SFAS No. 157 on our consolidated financial statements.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (“SAB 108”). SAB 108 was issued in order to eliminate the diversity in practice surrounding how public companies quantify financial statement misstatements. SAB 108 requires that registrants quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 must be implemented by the end of our fiscal 2007. We do not expect the adoption of SAB 108 to significantly affect our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans-an Amendment of FASB Statements No. 87, 88, 106 and 132(R)* (“SFAS No. 158”). SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a

multiemployer plan) as an asset or liability in its statement of financial position and to recognize the changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS No. 158 is effective for the Company as of the end of our fiscal 2007. We do not expect the adoption of SFAS No. 158 to significantly affect our consolidated financial statements.

In February 2007, the FASB issued FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115* (“FAS 159”). FAS 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in earnings. Entities electing the fair value option are

required to distinguish, on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. FAS 159 is effective for our fiscal year 2008. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of initial adoption. We are currently evaluating the impact, if any, of FAS 159 on our consolidated financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our market risk for the three months ended March 31, 2007. We conduct business in all parts of the world and are thereby exposed to market risks related to fluctuations in foreign currency exchange rates. The U.S. dollar is the single largest currency in which our revenue contracts are denominated. Thus, any decline in the value of local foreign currencies against the U.S. dollar results in our products and services being more expensive to a potential foreign customer, and in those instances where our goods and services have already been sold, may result in the receivables being more difficult to collect. We at times enter 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. We have not entered into any foreign currency hedging transactions. We do not purchase or hold any derivative financial instruments for the purpose of speculation or arbitrage.

The primary objective of our cash investment policy is to preserve principal without significantly increasing risk. Based on our cash investments and interest rates on these investments at March 31, 2007, and if we maintained this level of similar cash investments for a period of one year, a hypothetical ten percent increase or decrease in interest rates would increase or decrease interest income by approximately \$0.4 million annually.

Based on our debt balances at March 31, 2007, and if we maintained this level of debt for a period of one year, a hypothetical ten percent (approximately 60 basis point) increase or decrease in interest rates would increase or decrease interest expense by approximately \$0.5 million annually.

Item 4. CONTROLS AND PROCEDURES

Our management, under the supervision of and with the participation of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report, March 31, 2007. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of that date.

As of September 30, 2006, we identified material weaknesses in internal control over financial reporting related to accounting for non-routine transactions, financial reporting, recognition of revenue and income taxes. A material weakness is defined in Public Company Accounting Oversight Board Auditing Standard No. 2 as a significant deficiency, or a combination of significant deficiencies, in internal control over financial reporting that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. In connection with our overall assessment of internal control over financial reporting, we have evaluated the effectiveness of our internal control as of March 31, 2007 and have concluded that the material weaknesses related to accounting for non-routine transactions, financial reporting, recognition of revenue and income taxes were not remediated as of March 31, 2007.

Except for the material weaknesses in internal controls over financial reporting as referenced in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006, no other material weaknesses were identified in our evaluation of internal controls

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as of March 31, 2007.

Changes in Internal Control Over Financial Reporting

Remediation efforts relating to our internal control over financial reporting which have been implemented since September 30, 2006 include 1) establishing detailed project plans to address the above referenced material weaknesses, 2) weekly executive officer review of remediation progress, 3) evaluating our finance organization, talent, processes, and internal controls and 4) improving communications between finance and other constituents involved in the financial closing process. As part of the remediation efforts, we have hired a new Corporate Controller, Vice President of Corporate Tax and Director of Regulatory Reporting. There were no other changes in our internal controls over financial reporting during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

While we have implemented or continue to implement our remediation activities, we believe it will take multiple quarters of effective application of the control activities, including adequate testing of such control activities, in order for us to revise our conclusion regarding the effectiveness of our internal controls over financial reporting.

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PART II — OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, we are involved in various litigation matters arising in the ordinary course of our business. Other than as described below, we are not currently a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, we believe would be likely to have a material adverse effect on our 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 us 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 lead plaintiff. The Second Amended Consolidated Class Action Complaint previously alleged that during the purported class period, we and the named defendants misrepresented our historical financial condition, results of operations and our future prospects, and failed to disclose facts that could have indicated an impending decline in our revenues. That Complaint also alleged that, prior to August 2002, the purported truth regarding our financial condition had not been disclosed to the market. We and the individual defendants initially filed a motion to dismiss the lawsuit. In response, on December 15, 2003, the Court dismissed, without prejudice, Gregory Derkacht, our former president and chief executive officer, as a defendant, but denied the motion to dismiss with respect to the remaining defendants, including us.

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 of persons that purchased our common stock from January 21, 1999 through November 18, 2002.

On January 27, 2006, we and the individual defendants filed a motion for judgment on the pleadings, seeking a dismissal of the lead plaintiff and certain other class members, as well as a limitation on damages based upon plaintiffs' inability to establish loss causation with respect to a large portion of their claims. On February 6, 2006, additional class representative Roger M. Wally filed a motion to withdraw as a class representative and class member. On April 21, 2006, and based upon the pending motion for judgment, a motion to intervene as a class representative was filed by the Louisiana District Attorneys Retirement System ("LDARS"). LDARS previously attempted to be named as lead plaintiff in the case. On July 5, 2006, the Magistrate denied LDARS' motion to intervene, which LDARS appealed to the District Judge.

On May 17, 2006, the Court denied the motion for judgment on the pleadings as being moot based upon the Court's granting lead plaintiff leave to file a Third Amended Complaint ("Third Complaint"), which it did on May 31, 2006. The Third Complaint alleges the same misrepresentations as described above, while simultaneously alleging that the purported truth about our financial condition was being disclosed throughout that time, commencing in April 1999. The Third Complaint sought unspecified damages, interest, fees, and costs.

On June 14, 2006, we and the individual defendants filed a motion to dismiss the Third Complaint pursuant to Rules 8 and 12 of the Federal Rules of Civil Procedure. Lead Plaintiff opposed the motion. Prior to any ruling on the motion to dismiss, on November 7, 2006, the parties entered into a Stipulation of Settlement for purposes of settling all of the claims in the Class Action Litigation, with no admissions of wrongdoing by us or any individual defendant. The settlement provides for an aggregate cash payment of \$24.5 million of which, net of insurance, we contributed approximately \$8.5 million. The settlement was approved by the Court on March 2, 2007 and the Court ordered the case dismissed with prejudice against us and the individual defendants.

On March 27, 2007, James J. Hayes, a class member, filed a notice of appeal with the United States Court of Appeals for the Eighth Circuit appealing the Court's order. We responded to this appeal in accordance with the Court of Appeals' orders and procedures. The appeal has not yet been decided.

Derivative Litigation. On May 16, 2007, Thomas J. Lieven filed a purported stockholder derivative action in the United States District Court for the Southern District of New York. The lawsuit names certain former and current officers, all of the current directors and certain former directors as individual defendants. We are named as a nominal defendant. The plaintiff makes allegations related to our historical stock option granting practices, and asserts claims on behalf of us against the individual defendants under Section 14(a) of the Securities Exchange Act of 1934 and Rule 14a-9, as well as state law claims for breach of fiduciary duties, abuse of control, gross mismanagement, constructive fraud, waste of corporate assets and unjust enrichment.

Item 1A. RISK FACTORS

Except for the risk factors set forth below, there have been no material changes to the risk factors disclosed in Item 1A of the Company's Form 10-K for the fiscal year ended September 30, 2006. Additional risks and uncertainties, including risks and uncertainties not presently known to us, or that we currently deem immaterial, could also have an adverse effect on our business, financial condition and/or results of operations. The risk factors set forth below were disclosed in the Form 10-K, but have been updated to provide additional information or updates:

The delay in filing the Form 10-K for the fiscal year ended September 30, 2006, the Quarterly Report on Form 10-Q for the quarter ended December 31, 2006, and this Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 with the SEC and any failure to satisfy other NASDAQ listing requirements could cause the NASDAQ to commence suspension or delisting procedures with respect to our common stock.

As a result of the delay in filing the Form 10-K for the fiscal year ended September 30, 2006, the Form 10-Q for the quarter ended December 31, 2006 and this Form 10-Q for the quarter ended March 31, 2007, we are not in compliance with NASDAQ's Marketplace Rule 4310(c)(14). In response to letters we received in January 2007 and February 2007 following our failure to timely file our Form 10-K for the fiscal year ended September 30, 2006 and our Form 10-Q for the fiscal quarter ended December 31, 2006, we requested and were granted a hearing before the NASDAQ Listing Qualifications Panel, which took place on February 22, 2007. On April 13, 2007, we received a written notification from the Staff of NASDAQ stating that the NASDAQ Listing Qualifications Panel had granted our request for continued listing on the NASDAQ Global Select Market, subject to the condition that we file our Form 10-K for the fiscal year ended September 30, 2006, and our Form 10-Q for the quarter ended December 31, 2006, and all required restatements, by July 2, 2007. We filed our Annual Report on Form 10-K for the fiscal year ended September 30, 2006 on May 11, 2007 and filed the Quarterly Report on Form 10-Q for the quarter ended December 31, 2006 on June 29, 2007. On May 14, 2007, similar to the letters we received in January 2007 and February 2007, we received a letter from the Staff of NASDAQ stating that we are not in compliance with NASDAQ's Marketplace Rule 4310(c)(14) because we did not timely file our Form 10-Q for the quarter ended March 31, 2007. On July 20, 2007, the NASDAQ Listing Qualifications Panel determined that we complied with the terms of the Panel's decision dated April 13, 2007 and further, granted our request for continued listing on the NASDAQ Global Select Stock Market subject to the condition that we file our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 by August 8, 2007. We did not meet the August 8, 2007 deadline and we have informed NASDAQ of the delay. We cannot assure that NASDAQ will not take any action against us as a result of this delay or impose additional conditions on our continued listing, such as requiring us to file our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 by a specified deadline nor can we assure that we would be able to meet any such additional conditions. If we are unable to regain compliance of continued listing requirements of the NASDAQ, NASDAQ could commence suspension or delisting procedures with respect to our common stock. The commencement of any suspension or delisting procedures by the NASDAQ remains, at all times, at the discretion of the NASDAQ and would be publicly announced by the NASDAQ. The delisting of our common stock from NASDAQ may have a material adverse effect on us by, among other things, limiting:

- the liquidity of our common stock;

- the market price of our common stock;
- the number of institutional and other investors that will consider investing in our common stock;
- the availability of information concerning the trading prices and volume of our common stock;
- the number of broker-dealers willing to execute trades in shares of our common stock; and
- our ability to obtain equity financing for the continuation of our operations.

Management's backlog estimate may not be accurate and may not generate the predicted revenues.

As disclosed in the Current Report on Form 8-K filed on June 6, 2007, we adjusted our financial guidance for calendar year 2007 to reflect the revisions to our historical 60-month and 12-month backlog estimates as disclosed in the Form 10-K for the fiscal year ended September 30, 2006. These revisions have created a new baseline for our backlog metrics entering calendar year 2007. Estimates of future financial results are inherently unreliable. Our backlog estimates are based on management's current assessment of the customer contracts that exist as of the date the estimates are made, as well as revenues from assumed contract renewals, to the extent that we believe that recognition of the related revenue will occur within the corresponding backlog period. A number of factors could result in actual revenues being less than the amounts reflected in backlog. Our 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 we may

experience delays in the development or delivery of products or services specified in customer contracts. Actual renewal rates and amounts may differ from historical experiences used to estimate backlog amounts. Changes in foreign currency exchange rates may also impact the amount of revenue actually recognized in future periods. Accordingly, there can be no assurance that contracts included in backlog will actually generate the specified revenues or that the actual revenues will be generated within a 12-month or 60-month period. As a Non-GAAP financial measure, backlog estimates are not subject to the same level of internal review or controls as a GAAP financial measure.

We may become involved in litigation that could materially adversely affect our business financial condition and/or results of operations.

On May 16, 2007, Thomas J. Lieven filed a purported stockholder derivative action in the United States District Court for the Southern District of New York. The lawsuit names certain former and current officers, all of the current directors and certain former directors as individual defendants. We are named as a nominal defendant. The plaintiff makes allegations related to our historical stock option granting practices, and asserts claims on behalf of us against the individual defendants under Section 14(a) of the Securities Exchange Act of 1934 and Rule 14a-9, as well as state law claims for breach of fiduciary duties, abuse of control, gross mismanagement, constructive fraud, waste of corporate assets and unjust enrichment. Additionally, from time to time, we are involved in litigation relating to claims arising out of our operations. The Lieven derivative claim or any other 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 our business, financial condition, results of operations and/or cash flows.

As a result of the delays in filing our periodic reports, we required certain extensions in connection with the delivery of financial statements and related matters under financing arrangements for our bank debt. We may require additional extensions in the future, and failure to obtain the necessary extensions could have a material adverse effect on our business, liquidity and financial condition.

We have previously obtained certain extensions and may continue to seek additional extensions under our credit facilities. The extensions waive certain potential breaches of representations and covenants under our credit facilities and establish the extended deadlines for the delivery of certain financial reports. Our current extensions under the credit facilities for our quarterly financial statements for the fiscal quarter ended March 31, 2007 expire August 13, 2007 and the extensions for our quarterly financial statements for the fiscal quarter ended June 30, 2007 expire the earlier of (i) 45 days after delivery of our quarterly financial statements for the fiscal quarter ended March 31, 2007, and (ii) October 1, 2007. We may not be able to deliver our quarterly financial statements for the second quarter of fiscal 2007 within the extended period, which may impact whether we are able to file our quarterly results for the third quarter of fiscal 2007 within the extended period, and therefore, we may seek additional extensions under the credit facilities.

Under our credit facilities, the lenders have the right to notify us if they believe we have breached a representation or covenant under the operative debt instruments and may declare an event of default. If one or more notices of default were to be given, we believe we would have various periods in which to cure such events of default or obtain necessary extensions. If we do not cure the events of default or obtain necessary extensions within the required time periods or certain extended time periods, the maturity of some of our debt could be accelerated and our ability to incur additional indebtedness could be restricted. Moreover, defaults under our bank loan agreements could trigger cross-default provisions under those and other arrangements. There can be no assurance that any additional extensions will be received on a timely basis, if at all, or that any extensions obtained, including the extensions we have already obtained, will extend for a sufficient period of time to avoid an acceleration event, an event of default or other restrictions on our business operations. The failure to obtain such extensions could have a material adverse effect on our business, liquidity and financial condition.

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 2007:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)	Approximate Dollar Value of Shares that may yet be Purchased under the Program (1)
January 1 through January 31, 2007	—	—	—	32,957,000
February 1 through February 28, 2007	—	—	—	32,957,000
March 1 through March 31, 2007	—	—	—	132,957,000
Total Fiscal 2007 Second Quarter Activity	—	—	—	132,957,000

- (1) In fiscal 2005, 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. In May 2006, the Company's Board of Directors approved an increase of \$30 million to the stock repurchase program, bringing the total of the approved program to \$110 million. In March 2007, the Company's Board of Directors approved an increase of \$100 million to its current repurchase authorization, bringing the total authorization to \$210 million, of which approximately \$133 million remains available. In June and July 2007, the Company implemented this previously announced increase to its share repurchase program. There is no guarantee as to the exact number of shares that will be repurchased by the Company. Repurchased shares are 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 first six months of fiscal 2007, all shares were purchased in open-market transactions.

In addition to the purchases set forth above, pursuant to Rule 10b5-1 plan, the Company has cancelled options to purchase 112,506 shares and incurred cash outlays of approximately \$2.0 million, and corresponding expense of \$3.7 million, in the first six months of fiscal 2007 in connection with vested options that optionees were unable to exercise due to the suspension of option exercises during the period for which the Company was not current with its filings with the SEC and which would otherwise have expired as a result of the expiration of the option. The Company has incurred cash outlays subsequent to the second quarter of fiscal 2007 of approximately \$1.0 million, and corresponding expense of \$0.6 million (representing cancelled options to purchase 52,269 shares).

The Company presently estimates it will incur an additional \$8.4 million in cash outlays, and corresponding expense of \$3.4 million (representing estimated cancelled options to purchase approximately 378,000 shares) for the settlement of vested options. The actual amount incurred with respect to the settlement of options depends on the number of options that will expire prior to the Company becoming current with its filings with the SEC as well as the stock price used to calculate any settlement amount.

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 July 24, 2007. 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
John D. Curtis	30,557,737	3,499,612
Philip G. Heasley	28,740,435	5,316,914
Harlan F. Seymour	33,418,317	639,032
John M. Shay, Jr.	33,686,360	370,989
John E. Stokely	30,264,536	3,792,813

2. Proposal to amend and restate the Company's current Amended and Restated Certificate of Incorporation, as amended to date, to change the Company name from "Transaction Systems Architects, Inc." to "ACI Worldwide, Inc."

For: 3,984,415 **Against:** 35,057 **Abstain:** 37,877 **Broker Non-Vote:** - 0 -

3. Proposal to approve the first amendment to the Company's 2005 Equity and Performance Incentive Plan.

For: 25,340,120 **Against:** 4,438,529 **Abstain:** 92,006 **Broker Non-Vote:** 4,186,694-

4. Proposal to amend the Company's 1999 Employee Stock Purchase Plan.

For: 29,601,098 **Against:** 182,547 **Abstain:** 87,010 **Broker Non-Vote:** 4,186,694-

5. Proposal to ratify the appointment of KPMG LLP as the Company's independent auditors for fiscal 2007:

Item 5. OTHER INFORMATION

Not applicable.

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Item 6. EXHIBITS

The following lists exhibits filed as part of this quarterly report on Form 10-Q:

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of ACI Worldwide, Inc., dated July 24, 2007, filed with the Secretary of State of Delaware on July 24, 2007. (2)
10.1	Separation, Non-Compete, Non-Solicitation and Non-Disclosure Agreement and General Release with Anthony J. Parkinson dated May 10, 2007 (1)
10.2	ACI Worldwide, Inc. 2005 Equity and Performance Incentive Plan, as amended July 24, 2007.
31.01	Certification of Chief Executive Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Chief Financial Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.01	* Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.02	* Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* 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.

- (1) Incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on May 16, 2007.
- (2) Incorporated by reference to Exhibit 3.1 to the registrant's current report on Form 8-K filed on July 30, 2007.

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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.

ACI WORLDWIDE, INC.
(Registrant)

Date: August 10, 2007

By: _____
/s/ HENRY C. LYONS
Henry C. Lyons
Senior Vice President,
Chief Financial Officer and Chief Accounting
Officer
(principal financial officer)

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EXHIBIT INDEX

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ACI WORLDWIDE, INC.

**2005 Equity and Performance Incentive Plan
(Amended by the Stockholders July 24, 2007)**

1. **PURPOSE.** The purpose of the 2005 Equity and Performance Incentive Plan is to attract and retain directors, officers and other employees for ACI Worldwide, Inc., a Delaware corporation, and its Subsidiaries and to provide to such persons incentives and rewards for superior performance.

2. **DEFINITIONS.** As used in this Plan,

(a) **“Appreciation Right”** means a right granted pursuant to Section 5 of this Plan, and will include both Tandem Appreciation Rights and Free-Standing Appreciation Rights.

(b) **“Award”** means any Option, Appreciation Right, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units or Other Awards granted under this Plan.

(c) **“Award Agreement”** means an agreement, certificate, resolution or other type or form of writing or other evidence approved by the Board that sets forth the terms and conditions of the Awards granted. An Award Agreement may be in an electronic medium, may be limited to notation on the books and records of the Company and, with the approval of the Board, need not be signed by a representative of the Company or a Participant.

(d) **“Base Price”** means the price to be used as the basis for determining the Spread upon the exercise of a Free-Standing Appreciation Right and a Tandem Appreciation Right.

(e) **“Board”** means the Board of Directors of the Company and, to the extent of any delegation by the Board to a committee (or subcommittee thereof) pursuant to Section 16 of this Plan, such committee (or subcommittee).

(f) **“Code”** means the Internal Revenue Code of 1986, as amended from time to time, and includes a reference to the underlying final regulations. A reference to any provision of the Code shall include reference to any successor provision of the Code.

(g) **“Common Shares”** means the shares of Class A Common Stock, par value \$.005 per share, of the Company or any security into which such Common Shares may be changed by reason of any transaction or event of the type referred to in Section 12 of this Plan.

(h) **“Company”** means ACI Worldwide, Inc., a Delaware corporation formerly known as Transaction Systems Architects, Inc.

(i) **“Covered Employee”** means a Participant who is, or is determined by the Board to be likely to become, a “covered employee” within the meaning of Section 162(m) of the Code or any successor provision.

(j) **“Date of Grant”** means the date specified by the Board on which a grant of any Award under this Plan will become effective (which date will not be earlier than the date on which the Board takes action with respect thereto).

(k) **“Director”** means a member of the Board of Directors of the Company.

(l) **“Exchange Act”** means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, as such law, rules and regulations may be amended from time to time.

(m) **“Free-Standing Appreciation Right”** means an Appreciation Right granted pursuant to Section 5 of this Plan that is not granted in tandem with an Option.

(n) **“Incentive Stock Options”** means Options that are intended to qualify as “incentive stock options” under Section 422 of the Code or any successor provision.

(o) **“Management Objectives”** means the measurable performance objective or objectives established pursuant to this Plan for Participants who have received grants of Performance Shares or Performance Units or, when so determined by the Board, Options, Appreciation Rights, Restricted Stock, Restricted Stock Units, dividend credits and Other Awards pursuant to this Plan. Management Objectives may be described in terms of Company-wide objectives or objectives that are related to the performance of the individual Participant or of the Subsidiary, division, department, region or function within the Company or Subsidiary in which the Participant is employed. The Management Objectives may be made relative to the performance of other companies. The Management Objectives applicable to any Award to a Covered Employee will be based on specified levels of or growth in one or more of the following criteria:

1. cash flow/net assets ratio;
2. debt/capital ratio;
3. return on total capital;
4. return on equity;
5. earnings per share growth;
6. revenue growth;
7. total return to stockholders (which may be measured by stock price);
8. backlog; and
9. contribution margins.

If the Board determines that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the Management Objectives unsuitable, the Board may in its discretion modify such

Management Objectives or the related minimum acceptable level of achievement, in whole or in part, as the Board deems appropriate and equitable, except in the case of a Covered Employee where such action would result in the loss of the otherwise available exemption of the Award under Section 162(m) of the Code. In such case, the Board will not make any modification of the Management Objectives or minimum acceptable level of achievement with respect to such Covered Employee.

(p) **“Non-Employee Director”** means a person who is a “non-employee director” of the Company within the meaning of Rule 16b-3 of the Securities and Exchange Commission promulgated under the Exchange Act.

(q) **“Market Value per Share”** means, as of any particular date, (i) the closing sale price (price for last trade) per Common Share as reported on the principal exchange on which Common Shares are then trading, if any, or, if applicable and provided that the Common Shares are not then-traded on such principal exchange, the NASDAQ Global Select Stock Market, or if there are no sales on such day, on the next preceding trading day during which a sale occurred, or (ii) if clause (i) does not apply, the fair market value of the Common Shares as determined by the Board.

(r) **“Nonqualified Stock Option”** means an Option that is not an Incentive Stock Option.

(s) **“Optionee”** means the optionee named in an Award Agreement evidencing an outstanding Option.

(t) **“Option Price”** means the purchase price payable on exercise of an Option.

(u) **“Option”** means the right to purchase Common Shares upon exercise of an option granted pursuant to Section 4 or Section 9 of this Plan. An Option may be either an Incentive Stock Option or a Nonqualified Stock Option.

(v) **“Other Award”** means an award or bonus granted under Section 10 of this Plan.

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(w) **“Participant”** means a person who is selected by the Board to receive benefits under this Plan and who is at the time an officer, or other key employee of the Company or any one or more of its Subsidiaries, or who has agreed to commence serving in any of such capacities within 90 days of the Date of Grant, and will also include each Non-Employee Director who receives an Award under this Plan.

(x) **“Performance Period”** means, in respect of a Performance Share or Performance Unit or Qualified Performance-Based Award, a period of time established pursuant to Section 8 or Section 9, respectively, of this Plan within which the Management Objectives relating to such Performance Share, Performance Unit or Qualified Performance-Based Award are to be achieved.

(y) **“Performance Share”** means a bookkeeping entry that records the equivalent of one Common Share awarded pursuant to Section 8 or Section 9 of this Plan.

(z) **“Performance Unit”** means a bookkeeping entry that records a unit equivalent to \$1.00 awarded pursuant to Section 8 or Section 9 of this Plan.

(aa) **“Plan”** means this ACI Worldwide, Inc. 2005 Equity and Performance Incentive Plan, as amended.

(bb) **“Qualified Performance-Based Award”** means an Award that is either (i) intended to qualify for a Section 162(m) Exemption, and is made subject to the performance of certain Management Objectives, or (ii) an Option or Appreciation Right.

(cc) **“Restricted Stock”** means Common Shares granted or sold pursuant to Section 6 or Section 9 of this Plan as to which neither the substantial risk of forfeiture nor the prohibition on transfers has expired.

(dd) **“Restriction Period”** means the period of time during which Restricted Stock Units are subject to deferral, a substantial risk of forfeiture (based on the passage of time, the achievement of performance goals, or upon the occurrence of other events as determined by the Board, in its discretion) and other restrictions on transfer, as provided in Section 7 or Section 9 of this Plan.

(ee) **“Restricted Stock Unit”** means an award made pursuant to Section 7 or Section 9 of this Plan of the right to receive Common Shares or cash at the end of a specified period.

(ff) **“Section 162(m) Exemption”** means the exemption from the limitation on deductibility imposed by Section 162(m) of the Code or any successor provision thereto.

(gg) **“Spread”** means the excess of the Market Value per Share on the date when an Appreciation Right is exercised, or on the date when Options are surrendered in payment of the Option Price of other Options, over the Option Price or Base Price provided for in the related Option or Appreciation Right, respectively.

(hh) **“Subsidiary”** means a corporation, company or other entity (i) more than 50 percent of whose outstanding shares or securities (representing the right to vote for the election of directors or other managing authority) are, or (ii) which does not have outstanding shares or securities (as may be the case in a partnership, joint venture or unincorporated association), but more than 50 percent of whose ownership interest representing the right generally to make decisions for such other entity is, now or hereafter, owned or controlled, directly or indirectly, by the Company; except that, for purposes of determining whether any person may be a Participant for purposes of any grant of Incentive Stock Options, **“Subsidiary”** means any corporation in which at the time the Company owns or controls, directly or indirectly, more than 50 percent of the total combined voting power represented by all classes of stock issued by such corporation.

(ii) **“Tandem Appreciation Right”** means an Appreciation Right granted pursuant to Section 5 of this Plan that is granted in tandem with an Option.

3. SHARES AVAILABLE UNDER THE PLAN.

(a) **Number of Shares.** Subject to adjustment as provided in Section 3(b) and Section 12 of this Plan, the maximum number of Common Shares that may be issued or transferred to Participants and their beneficiaries in connection with Awards granted under the Plan shall be equal to the sum of: (i) 5,000,000 Common Shares plus any shares described in Section 3(b), and (ii) any Common Shares that are represented by options granted under the following Company plans which are forfeited, expire or are canceled without delivery of Common Shares or which result in the forfeiture or relinquishment of Common Shares back to the Company: (A) the 1994 Stock Option Plan, as amended, (B) the 1996 Stock Option Plan, (C) the 1997 Management Stock Option Plan, (D) the 2000 Non-Employee Director Stock Option, (E) the MessagingDirect Ltd. Amended and Restated Employee Share Option Plan and (F) the 2002 Non-Employee Director Stock Option Plan, as amended (collectively the "Prior Plans"). Such shares may be shares of original issuance or treasury shares or a combination of the foregoing.

(b) **Share Calculation.**

(i) To the extent that an Award is canceled, terminates, expires, is forfeited or lapses for any reason, any unissued Common Shares subject to the Award will again be available for issuance pursuant to Awards granted under this Plan.

(ii) Common Shares subject to Awards settled in cash will again be available for issuance pursuant to Awards granted under this Plan.

(iii) Shares surrendered or relinquished upon the payment of any Option Price for Options granted under this Plan or any of the Prior Plans by transfer to the Company of Common Shares or upon satisfaction of any withholding amount will again be available for issuance pursuant to Awards granted under this Plan.

(iv) The number of shares available in Section 3(a) shall not be reduced to reflect any dividends or dividend equivalents that are reinvested into additional Common Shares or credited as additional Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units.

(v) If, under this Plan, a Participant has given up the right to receive compensation in exchange for Common Shares based on fair market value, such Common Shares will not count against the number of shares available in Section 3(a) above.

(c) **Individual Limits.** Notwithstanding anything in this Section 3, or elsewhere in this Plan to the contrary and subject to adjustment as provided in Section 12 of this Plan:

(i) the aggregate number of Common Shares actually issued or transferred by the Company upon the exercise of Incentive Stock Options will not exceed 3,000,000 Common Shares;

(ii) no Participant will be granted Options, Appreciation Rights, Restricted Stock, Restricted Stock Units, or Other Awards this Plan during the life of the Plan, in the aggregate, for more than 1,000,000 Common Shares during any calendar year; and

(iii) notwithstanding any other provision of this Plan to the contrary, in no event will any Participant in any calendar year receive an award of Performance Shares or Performance Units having an aggregate maximum value as of their respective Dates of Grant in excess of \$5,000,000.

4. **OPTIONS.** The Board may, from time to time and upon such terms and conditions as it may determine, authorize the granting to Participants of Options to purchase Common Shares. Each such grant may utilize any or all of the authorizations, and will be subject to all of the requirements contained in the following provisions:

(a) **Type of Options and Eligibility.** Options granted under this Plan may be (i) Incentive Stock Options (ii) Nonqualified Stock Options, or (iii) combinations of the foregoing. Incentive Stock Options may only be granted to Participants who meet the definition of "employees" under Section 3401(c) of the Code.

(b) **Number of Shares.** Each grant will specify the number of Common Shares to which it pertains subject to the limitations set forth in Section 3 of this Plan.

(c) **Exercise Price.** Each grant will specify an Option Price per share, which may not be less than the Market Value per Share on the Date of Grant.

(d) **Exercise Terms and Expiration.** An Option will be exercisable in accordance with such terms and conditions and during such periods established by the Board and set forth in the Award Agreement; provided, however, no Option will be exercisable more than 10 years from the Date of Grant.

(e) **Special Terms for Incentive Stock Options.**

(i) Notwithstanding anything contained herein to the contrary, the aggregate Market Value per Share with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year (under all incentive stock option plans of the Company or any Subsidiary) shall not exceed \$100,000 or such other limit set forth in the Code, as amended.

(ii) No Incentive Stock Option shall be granted to an employee who, at the time the Incentive Stock Option is granted, owns (actually or constructively under the provisions of Section 424(d) of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary, unless the Option Price is at least 110% of the Market Value per Share (determined as of the time the Incentive Stock

Option is granted) of Common Shares subject to the Incentive Stock Option and the Incentive Stock Option by its terms is not exercisable more than five (5) years from the Date of Grant.

(iii) To the extent that any provision of this Plan would prevent any Option that was intended to qualify as an Incentive Stock Option from qualifying as such, that provision will be null and void with respect to such Option. Such provision, however, will remain in effect for other Options and there will be no further effect on any provision of this Plan.

(f) **Payment.**

(i) Each grant will specify whether the Option Price will be payable (i) in cash or by check acceptable to the Company or by wire transfer of immediately available funds, (ii) by the actual or constructive transfer to the Company of Common Shares owned by the Optionee for at least 6 months (or other consideration authorized pursuant to Section 4(f)(ii)) having a value at the time of exercise equal to the total Option Price, or (iii) by a combination of such methods of payment.

(ii) The Board may determine, at or after the Date of Grant, that payment of the Option Price of any Nonqualified Stock Option may also be made in whole or in part in the form of Restricted Stock or other Common Shares that are forfeitable or subject to restrictions on transfer, or in the form of Restricted Stock Units, Performance Shares (based, in each case, on the Market Value per Share on the date of exercise), other Options (based on the Spread on the date of exercise) or Performance Units. Unless otherwise determined by the Board at or after the Date of Grant, whenever any Option Price is paid in whole or in part by means of any of the forms of consideration specified in this Section 4(f)(ii), the Common Shares received upon the exercise of the Options will be subject to such risks of forfeiture or restrictions on transfer as may correspond to any that apply to the consideration surrendered, but only to the extent, determined with respect to the consideration surrendered, of (A) the number of shares or Performance Shares, (B) the Spread of any unexercisable portion of Options, or (C) the stated value of Performance Units.

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(iii) The Board reserves the discretion at or after the Date of Grant to provide for (a) the payment of a cash bonus at the time of exercise; (b) the availability of a loan at exercise; and (c) the right to tender in satisfaction of the Option Price nonforfeitable, unrestricted Common Shares, which are already owned by the Optionee and have a value at the time of exercise that is equal to the Option Price.

(iv) To the extent permitted by law, any grant may provide for deferred payment of the Option Price from the proceeds of sale through a bank or broker on a date satisfactory to the Company of some or all of the shares to which such exercise relates.

(g) **General.**

(i) Successive grants may be made to the same Participant whether or not any Options previously granted to such Participant remain unexercised.

(ii) Each grant will specify the period or periods of continuous service by the Optionee with the Company or any Subsidiary that is necessary before the Options or installments thereof will become exercisable and may provide for the earlier exercise of such Options in the event of the termination of the Optionee's employment for any reason or a change in control of the Company, as may be defined in an Award Agreement.

(iii) The exercise of an Option will result in the cancellation on a share- for-share basis of any Tandem Appreciation Right authorized under Section 5 of this Plan.

(iv) Any grant of Options may specify Management Objectives that must be achieved as a condition to the exercise of such rights.

(h) **Award Agreement.** Each grant of Options will be evidenced by an Award Agreement and will contain such terms and provisions, consistent with this Plan, as the Board may approve.

5. **APPRECIATION RIGHTS.**

(a) **Types of Appreciation Rights.** The Board may authorize the granting of (i) Tandem Appreciation Rights in respect of Options granted hereunder to any Optionee, and (ii) Free-Standing Appreciation Rights to any Participant. Each grant of Appreciation Rights may utilize any or all of the authorizations, and will be subject to all of the requirements, contained in the following provisions.

(b) **Tandem Appreciation Rights.** A "**Tandem Appreciation Right**" will be a right of the Optionee, exercisable by surrender of the related Option, to receive from the Company an amount determined by the Board, which will be expressed as a percentage of the Spread (not exceeding 100 percent) at the time of exercise. Tandem Appreciation Rights may be granted at any time prior to the exercise or termination of the related Options; provided, however, that a Tandem Appreciation Right awarded in relation to an Incentive Stock Option must be granted concurrently with such Incentive Stock Option.

(i) Any grant of Tandem Appreciation Rights will provide that such Tandem Appreciation Rights may be exercised only at a time when the related Option is also exercisable and at a time when the Spread is positive, and by surrender of the related Option for cancellation.

(c) **Free-Standing Appreciation Rights.** A "**Free-Standing Appreciation Right**" will be a right of the Participant to receive from the Company an amount determined by the Board, which will be expressed as a percentage of the Spread (not exceeding 100 percent) at the time of exercise.

(i) Each grant will specify in respect of each Free-Standing Appreciation Right a Base Price, which will be equal to or greater than the Market Value per Share on the day immediately preceding the Date of Grant;

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(ii) Successive grants may be made to the same Participant regardless of whether any Free-Standing Appreciation Rights previously granted to the Participant remain unexercised; and

(iii) No Free-Standing Appreciation Right granted under this Plan may be exercised more than 10 years from the Date of Grant.

(d) **Payment.**

(i) Any grant may specify that the amount payable on exercise of an Appreciation Right may be paid by the Company in cash, in Common Shares or in any combination thereof and may either grant to the Participant or retain in the Board the right to elect among those alternatives.

(ii) Any grant may specify that the amount payable on exercise of an Appreciation Right may not exceed a maximum specified by the Board at the Date of Grant.

(e) **General.**

(i) Any grant may specify waiting periods before exercise and permissible exercise dates or periods.

(ii) Any grant may specify that such Appreciation Right may be exercised only in the event of, or earlier in the event of, a change in control of the Company, as may be defined in an Award Agreement.

(iii) Any grant of Appreciation Rights may specify Management Objectives that must be achieved as a condition of the exercise of such Appreciation Rights.

(f) **Award Agreement.** Each grant of Appreciation Rights will be evidenced by an Award Agreement, which Award Agreement will describe such Appreciation Rights, identify the related Options (if applicable), and contain such other terms and provisions, consistent with this Plan, as the Board may approve.

6. **RESTRICTED STOCK.** The Board may also authorize the grant or sale of Restricted Stock to Participants. Each such grant or sale may utilize any or all of the authorizations, and will be subject to all of the requirements, contained in the following provisions.

(a) **Ownership.** Each such grant or sale will constitute an immediate transfer of the ownership of Common Shares to the Participant in consideration of the performance of services, entitling such Participant to voting, dividend and other ownership rights, but subject to the substantial risk of forfeiture and restrictions on transfer hereinafter referred to.

(b) **Consideration.** Each such grant or sale may be made without additional consideration or in consideration of a payment by such Participant that is less than the Market Value per Share at the Date of Grant.

(c) **Substantial Risk of Forfeiture.**

(i) Each such grant or sale will provide that the Restricted Stock covered by such grant or sale will be subject to a "substantial risk of forfeiture" within the meaning of Section 83 of the Code for a period of not less than one year to be determined by the Board at the Date of Grant and may provide for the earlier lapse of such substantial risk of forfeiture in the event of a change in control of the Company, as may be defined in an Award Agreement.

(ii) Each such grant or sale will provide that during the period for which such substantial risk of forfeiture is to continue, the transferability of the Restricted Stock will be prohibited or restricted in the manner and to the extent prescribed by the Board at the Date of Grant (which restrictions may include, without limitation, rights of repurchase or first refusal in the Company or provisions

subjecting the Restricted Stock to a continuing substantial risk of forfeiture in the hands of any transferee).

(d) **General.**

(i) Any grant of Restricted Stock may specify Management Objectives that, if achieved, will result in termination or early termination of the restrictions applicable to such Restricted Stock. Each grant may specify in respect of such Management Objectives a minimum acceptable level of achievement and may set forth a formula for determining the number of shares of Restricted Stock on which restrictions will terminate if performance is at or above the minimum level, but falls short of full achievement of the specified Management Objectives.

(ii) Unless otherwise directed by the Board, all certificates representing shares of Restricted Stock will be held in custody by the Company until all restrictions thereon will have lapsed, together with a stock power or powers executed by the Participant in whose name such certificates are registered, endorsed in blank and covering such Shares.

(e) **Award Agreement.** Each grant or sale of Restricted Stock will be evidenced by an Award Agreement and will contain such terms and provisions, consistent with this Plan, as the Board may approve.

7. **RESTRICTED STOCK UNITS.** The Board may also authorize the granting or sale of Restricted Stock Units to Participants. Each such grant or sale may utilize any or all of the authorizations, and will be subject to all of the requirements contained in the following provisions.

(a) **Payment.**

(i) Each such grant or sale will constitute the agreement by the Company to deliver Common Shares or cash to the Participant in the future in consideration of the performance of services, but subject to the fulfillment of such conditions during the Restriction Period as the Board may specify.

(ii) Each such grant or sale may be made without additional consideration or in consideration of a payment by such Participant that is less than the Market Value per Share at the Date of Grant.

(b) **Restriction Period.**

(i) Each such grant or sale will be subject to a Restriction Period of not less than one year, as determined by the Board at the Date of Grant, and may provide for the earlier lapse or other modification of such Restriction Period in the event of a change in control of the Company, as may be defined in an Award Agreement.

(ii) During the Restriction Period, the Participant will have no right to transfer any rights under his or her Award and will have no rights of ownership in the Restricted Stock Units and will have no right to vote them.

(c) **Award Agreement.** Each grant or sale of Restricted Stock Units will be evidenced by an Award Agreement and will contain such terms and provisions, consistent with this Plan, as the Board may approve.

8. **PERFORMANCE SHARES AND PERFORMANCE UNITS.** The Board may also authorize the granting of Performance Shares and Performance Units that will become payable to a Participant upon achievement of specified Management Objectives during the Performance Period. Each such grant may utilize any or all of the authorizations, and will be subject to all of the requirements, contained in the following provisions.

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(a) **Shares and Units.** Each grant will specify the number of Performance Shares or Performance Units to which it pertains, which number may be subject to adjustment to reflect changes in compensation or other factors; provided, however, that no such adjustment will be made in the case of a Covered Employee where such action would result in the loss of the otherwise available exemption of the Award under Section 162(m) of the Code.

(b) **Performance Period.** The Performance Period with respect to each Performance Share or Performance Unit will be such period of time (not less than one year), commencing with the Date of Grant as will be determined by the Board at the time of grant, which may be subject to earlier lapse or other modification in the event of a change in control of the Company, as may be defined in an Award Agreement.

(c) **Achievement of Management Objectives.** Any grant of Performance Shares or Performance Units will specify Management Objectives which, if achieved, will result in payment or early payment of the Award, and each grant may specify in respect of such specified Management Objectives a minimum acceptable level of achievement and will set forth a formula for determining the number of Performance Shares or Performance Units that will be earned if performance is at or above the minimum level, but falls short of full achievement of the specified Management Objectives. The grant of Performance Shares or Performance Units will specify that, before the Performance Shares or Performance Units will be earned and paid, the Board must certify that the Management Objectives have been satisfied.

(d) **Payment.**

(i) Each grant will specify the time and manner of payment of Performance Shares or Performance Units that have been earned.

(ii) Any grant may specify that the amount payable with respect thereto may be paid by the Company in cash, in Common Shares or in any combination thereof and may either grant to the Participant or retain in the Board the right to elect among those alternatives.

(iii) Any grant of Performance Shares or Performance Units may specify that the amount payable or the number of Common Shares issued with respect thereto may not exceed a maximum specified by the Board at the Date of Grant.

(e) **Award Agreement.** Each grant of Performance Shares or Performance Units will be evidenced by an Award Agreement and will contain such other terms and provisions, consistent with this Plan, as the Board may approve.

9. **AWARDS TO NON-EMPLOYEE DIRECTORS.** The Board may authorize the grant or sale of any Award available under this Plan to Non-Employee Directors, from time to time, upon such terms and conditions as it may determine and subject to the terms and conditions pertaining to the type of Award granted, as described in this Plan.

(a) **Payment for Options.** Options may be exercised by a Non-Employee Director only upon payment to the Company in full of the Option Price of the Common Shares to be delivered. Such payment will be made in cash or in Common Shares then owned by the Optionee for at least six months, or in a combination of cash and such Common Shares.

(b) **Employee Status.** If a Non-Employee Director subsequently becomes an employee of the Company or a Subsidiary while remaining a member of the Board, any Options held under the Plan by such individual at the time of such commencement of employment will not be affected thereby.

(c) **Director Compensation Substitution.** Non-Employee Directors, pursuant to this Section 9, may be awarded, or may be permitted to elect to receive, pursuant to procedures established by the Board, all or any portion of their annual retainer, meeting fees or other fees in Common Shares in lieu of cash.

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(d) **Award Agreement.** Each grant of Awards pursuant to this Section 9 will be evidenced by an Award Agreement and will contain such other terms and provisions, consistent with this Plan, as the Board may approve.

10. **OTHER AWARDS.**

(a) **Other Awards.** The Board may, subject to limitations under applicable law, grant to any Participant such other awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Common Shares or factors that may influence the value of such shares, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Common Shares, purchase rights for Common Shares, Awards with value and payment contingent upon performance of the Company or specified Subsidiaries, affiliates or other business units thereof or any other factors designated by the Board, and Awards valued by reference to the book value of Common Shares or the value of securities of, or the performance of specified Subsidiaries or affiliates or other business units of the Company. The Board shall determine the terms and conditions of such Other Awards. Common Shares delivered pursuant to an Award in the nature of a purchase right granted under this Section 10 shall be purchased for such consideration, paid for at such time, by such methods, and in such forms, including, without limitation, cash, Common Shares, other awards, notes or other property, as the Board shall determine.

(b) **Cash Awards.** Cash awards, as an element of or supplement to any other award granted under this Plan, may also be granted pursuant to this Section 10.

(c) **Share Bonus.** The Board may grant Common Shares as a bonus, or may grant other awards in lieu of obligations of the Company or a Subsidiary to pay cash or deliver other property under this Plan or under other plans or compensatory arrangements, subject to such terms as shall be determined by the Board.

11. **TRANSFERABILITY.**

(a) **Limits on Transferability.** Except for transfers of Awards to the Company pursuant to Section 4(f)(ii), or as provided in Section 11(b) below, no Option, Appreciation Right or other derivative security granted under the Plan shall be transferable by the Participant except by will or the laws of descent and distribution or, except with respect to an Incentive Stock Option, pursuant to a domestic relations order (within the meaning of Rule 16a-12 promulgated under the Exchange Act). Except as otherwise determined by the Board, Options and Appreciation Rights will be exercisable during the Participant's lifetime only by him or her or, in the event of the Participant's legal incapacity to do so, by his or her guardian or legal representative acting on behalf of the Participant in a fiduciary capacity under state law and/or court supervision.

(b) **Beneficiary Designations.**

(i) Notwithstanding Section 11(a) above, an Option, Appreciation Right or other derivative security granted under the Plan may be transferable upon the death of the Participant, without payment of consideration therefor, to any one or more family members (as defined in the General Instructions to Form S-8 under the Securities Act of 1933) of the Participant, as may have been designated in writing by the Participant by means of a form of beneficiary designation approved by the Company. Such beneficiary designation may be made at any time by the Participant and shall be effective when it is filed, prior to the death of the Participant, with the Company. Any beneficiary designation may be changed by the filing of a new beneficiary designation, which will cancel any beneficiary designation previously filed with the Company.

(ii) Notwithstanding Section 11(a) above, an Option, Appreciation Right or other derivative security granted under the Plan may be transferable by the Participant without payment of consideration therefor, to any one or more family members (as defined in the General Instructions to Form S-8 under the Securities Act of 1933) of the Participant; provided, however, that such transfer will

not be effective until notice of such transfer is delivered to the Company; and provided, further, however, that any such transferee is subject to the same terms and conditions hereunder as the Participant.

(c) **Additional Restrictions on Transfer.** The Board may specify at the Date of Grant that part or all of the Common Shares that are (i) to be issued or transferred by the Company upon the exercise of Options or Appreciation Rights, upon the termination of the Restriction Period applicable to Restricted Stock Units or upon payment under any grant of Performance Shares or Performance Units or (ii) no longer subject to the substantial risk of forfeiture and restrictions on transfer referred to in Section 6 of this Plan, will be subject to further restrictions on transfer.

12. **ADJUSTMENTS.**

(a) **Outstanding Awards.** The Board may make or provide for such adjustments in the number of Common Shares covered by outstanding Options, Appreciation Rights, Restricted Stock Units, and Performance Shares granted hereunder and, if applicable, in the number of Common Shares covered by Other Awards, in the Option Price and Base Price provided in outstanding Options and Appreciation Rights, and in the kind of shares covered thereby, as the Board, in its sole discretion, exercised in good faith, may determine is equitably required to prevent dilution or enlargement of the rights of Participants or Optionees that otherwise would result from (a) any stock dividend, stock split, combination of shares, recapitalization, reclassification or other change in the capital structure of the Company, or (b) any merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the event of any such transaction or event, the Board, in its discretion, may provide in substitution for any or all outstanding Awards under this Plan such alternative consideration as it, in good faith, may determine to be equitable in the circumstances and may require in connection therewith the surrender of all Awards so replaced.

(b) **Share Limitations.** The Board may also make or provide for such adjustments in the number and kind of Common Shares specified in Section 3 of this Plan as the Board in its sole discretion, exercised in good faith, may determine is appropriate to reflect any transaction or event described in this Section 12; provided, however, that any such adjustment to the number specified in Section 3(c)(i) will be made only if and to the extent that such adjustment would not cause any Option intended to qualify as an Incentive Stock Option to fail so to qualify.

13. **FRACTIONAL SHARES.** The Company will not be required to issue any fractional Common Shares pursuant to this Plan. The Board may provide for the elimination of fractions or for the settlement of fractions in cash.

14. **WITHHOLDING TAXES.** To the extent that the Company is required to withhold federal, state, local or foreign taxes in connection with any payment made or benefit realized by a Participant or other person under this Plan, and the amounts available to the Company for such withholding are insufficient, it will be a condition to the receipt of such payment or the realization of such benefit that the Participant or such other person make arrangements satisfactory to the Company for payment of the balance of such taxes required to be withheld, which arrangements (in the discretion of the Board) may include relinquishment of a portion of such benefit.

15. **FOREIGN EMPLOYEES.** In order to facilitate the making of any grant or combination of grants under this Plan, the Board may provide for such special terms for Awards to Participants who are foreign nationals or who are employed by the Company or any Subsidiary outside of the United States of America or who provide services to the Company under an agreement with a foreign nation or agency, as the Board may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Moreover, the Board may approve such supplements to or amendments, restatements or alternative versions of this Plan as it may consider necessary or appropriate for such purposes, without thereby affecting the terms of this Plan as in effect for any other purpose, and the Secretary or other appropriate officer of the Company may certify any such document as having been approved and adopted in the same manner as this Plan. No such special terms, supplements, amendments or

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restatements, however, will include any provisions that are inconsistent with the terms of this Plan as then in effect unless this Plan could have been amended to eliminate such inconsistency without further approval by the stockholders of the Company.

16. **ADMINISTRATION OF THE PLAN.**

(a) **Board or Committee.** This Plan will be administered by the Board, which may from time to time delegate all or any part of its authority under this Plan to the Compensation Committee of the Board (or a subcommittee thereof), as constituted from time to time; provided, however, such committee shall consist of two or more members of the Board, all of whom shall qualify as an “outside director” pursuant to Section 162(m) of the Code and a “Non-Employee Director.” To the extent of any such delegation, references in this Plan to the Board will be deemed to be references to such committee or subcommittee. A majority of the committee (or subcommittee) will constitute a quorum, and the action of the members of the committee (or subcommittee) present at any meeting at which a quorum is present, or acts unanimously approved in writing, will be the acts of the committee (or subcommittee).

(b) **Interpretation and Construction.** The interpretation and construction by the Board of any provision of this Plan or of any agreement, notification or document evidencing the grant of Options, Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units or Other Awards and any determination by the Board pursuant to any provision of this Plan or of any such agreement, notification or document will be final and conclusive. No member of the Board will be liable for any such action or determination made in good faith.

(c) **Delegation.** The Board or, to the extent of any delegation as provided in Section 16(a), the committee, may delegate to one or more of its members or to one or more officers of the Company, or to one or more agents or advisors, such administrative duties or powers as it may deem advisable, and the Board, the committee, or any person to whom duties or powers have been delegated as aforesaid, may employ one or more persons to render advice with respect to any responsibility the Board, the committee or such person may have under the Plan. The Board or the committee may, by resolution, authorize one or more officers of the Company to do one or both of the following on the same basis as the Board or the committee: (i) designate employees to be recipients of Awards under this Plan; and (b) determine the size of any such Awards; provided, however, that (A) the Board or the Committee shall not delegate such responsibilities to any such officer for Awards granted to an employee who is an officer, Director, or more than 10% beneficial owner of any class of the Company’s equity securities that is registered pursuant to Section 11 of the Exchange Act, as determined by the Board in accordance with Section 16 of the Exchange Act; (B) the resolution providing for such authorization sets forth the total number of Common Shares such officer(s) may grant; and (iii) the officer(s) shall report periodically to the Board or the committee, as the case may be, regarding the nature and scope of the Awards granted pursuant to the authority delegated.

(d) **No Other Awards.** The terms of the Plan govern all Awards granted under the Plan, and in no event will the Board have the power to grant any Award under the Plan that is contrary to any of the provisions of the Plan.

17. **AMENDMENTS.**

(a) **Right to Amend the Plan.** The Board may at any time and from time to time amend the Plan in whole or in part; provided, however, that any amendment which must be approved by the stockholders of the Company in order to comply with applicable law or the rules of the NASDAQ Stock Market’s National Market or, if the Common Shares are not traded on the NASDAQ Stock Market’s National Market, the principal national securities exchange upon which the Common Shares are traded or quoted, will not be effective unless and until such approval has been obtained.

(b) **No Re-Pricing of Options.** The Board will not, without the further approval of the stockholders of the Company, authorize the amendment of any outstanding Option to reduce the Option Price. Furthermore, no Option will be cancelled and replaced with Awards having a lower Option Price without further approval of the stockholders of the Company. This Section 17(b) is intended to prohibit

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the repricing of “underwater” Options and will not be construed to prohibit the adjustments provided for in Section 12 of this Plan.

(c) **Amendments to Awards.** The Board may amend the terms of any Award theretofore granted under this Plan prospectively or retroactively, but subject to Section 12 above, no such amendment shall impair the rights of any holder without his or her consent.

18. **ACCELERATION OF VESTING UPON TERMINATION OF EMPLOYMENT.** In case of termination of employment by reason of death, disability or normal or early retirement, or in the case of an unforeseeable emergency or other special circumstances, of a Participant who holds an Option or Appreciation Right not immediately exercisable in full, or any shares of Restricted Stock as to which the substantial risk of forfeiture or the prohibition or restriction on transfer has not lapsed, or any Restricted Stock Units as to which the Restriction Period has not been completed, or any Performance Shares or Performance Units which have not been fully earned, or any Other Awards subject to any vesting schedule or transfer restriction, or who holds Common Shares subject to any transfer restriction imposed pursuant to Section 11(b) of this Plan, the Board may, in its sole discretion, accelerate the time at which such Option, Appreciation Right or Other Award may be exercised or the time at which such substantial risk of forfeiture or prohibition or restriction on transfer will lapse or the time when such Restriction Period will end or the time at which such Performance Shares or Performance Units will be deemed to have been fully earned or the time when such transfer restriction will terminate or may waive any other limitation or requirement under any such Award.

19. **GOVERNING LAW.** The Plan and all Awards, grants and actions taken thereunder shall be governed by and construed in accordance with the internal substantive laws of the State of Delaware.

20. **TERMINATION OF THE PLAN.** The Plan shall be effective as of the date it is approved by both the Board and the stockholders of the Company. The Board may, in its discretion, terminate this Plan at any time. No grant will be made under this Plan more than 10 years after the date on which this Plan is first approved by the stockholders of the Company, but all grants made on or prior to such date will continue in effect thereafter subject to the terms thereof and of this Plan. Termination of this Plan will not affect the rights of Participants or their successors under any Awards outstanding hereunder and not exercised in full on the date of termination.

21. **PROVISIONS APPLICABLE TO ALL AWARDS.**

(a) **Dividends and Dividend Equivalents.**

(i) The Board may, at or after the Date of Grant of an Award (other than Incentive Stock Options), provide the Participant the right to receive dividends or dividend equivalents which may be either paid on a current, deferred or contingent basis or credited to an account for the Participant.

(ii) With respect to Restricted Stock, the Board may require that any or all dividends or other distributions paid thereon during the period of time for which such Restricted Stock is subject to substantial risk of forfeiture or other transfer restriction be automatically deferred and reinvested in additional shares of Restricted Stock, which may be subject to the same restrictions as the underlying Restricted Stock.

(iii) Any dividends or dividend equivalents may be settled in cash, Common Shares or a combination of both as determined in the Board's sole discretion.

(b) **Deferrals.** The Board may permit Participants to elect to defer the issuance of Common Shares or the settlement of Awards in cash under the Plan pursuant to such rules, procedures or programs as it may establish for purposes of this Plan. The Board also may provide that deferred issuances and settlements include the payment or crediting of dividend equivalents or interest on the deferral amounts.

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(c) **Surrender or Deferral of Compensation.** The Board may condition the grant of any Award or combination of Awards authorized under this Plan on the surrender or deferral by the Participant of his or her right to receive a cash bonus or other compensation otherwise payable by the Company or a Subsidiary to the Participant.

(d) **Qualified Performance-Based Awards.**

(i) The provisions of the Plan are intended to ensure that all Options and Appreciation Rights granted hereunder to any Covered Employee shall qualify for the Section 162(m) Exemption; provided that the Option Price or Base Price of such Award is not less than the Market Value per Share on the Date of Grant. In addition to Performance Shares and Performance Units, when granting any other Award, the Board may designate such Award as a Qualified Performance-Based Award, based upon a determination that the recipient is or may be a Covered Employee with respect to such Award, and the Board wishes such Award to qualify for the Section 162(m) Exemption. If an Award is so designated, the Board shall establish Management Objectives for such Award within the time period prescribed by Section 162(m) of the Code.

(ii) Each Qualified Performance-Based Award (other than an Option or Appreciation Right shall be earned, vested and payable (as applicable) only upon the achievement of the Management Objectives established by the Board, together with the satisfaction of any other conditions as the Board may determine to be appropriate.

(iii) The Board may provide, in its sole and absolute discretion, either in connection with the grant thereof or by amendment thereafter, that achievement of the Management Objectives will be waived upon the death or disability of the Participant, or upon a change in control of the Company, as may be defined in the Award Agreement. Performance periods established by the Board for any such Qualified Performance-Based Award may not be less than one year from the Date of Grant.

(iv) Any payment of a Qualified Performance-Based Award granted with Management Objectives pursuant to this Plan shall be conditioned on the written certification of the Board in each case that the Management Objectives and any other material conditions were satisfied.

(v) Sections 3(c)(ii) and (iv) set forth the maximum number of Common Shares or dollar value that may be granted in any one-year period to a Participant in designated forms of Qualified Performance-Based Awards.

(vi) Any grant of an Award intended to qualify as a Qualified Performance-Performance-based Award will specify Management Objectives which, if achieved, will result in payment or early payment of the Award, and each grant may specify in respect of such specified Management Objectives a minimum acceptable level of achievement and will set forth a formula for determining the number of shares or units that will be earned if performance is at or above the minimum level, but falls short of full achievement of the specified Management Objectives. The grant of a Qualified Performance-based Award will specify that, before the Qualified Performance-based Award will be earned and paid, the Board must certify that the Management Objectives have been satisfied.

(e) **Forfeiture Events.** The Board may specify in an Award Agreement that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events shall include, but shall not be limited to, termination of employment for cause, violation of material Company or Subsidiary policies, violation of ethical codes or other codes of conduct, breach of noncompetition, confidentiality or other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is detrimental to the business or reputation of the Company or any Subsidiary.

22. GENERAL PROVISIONS.

(a) **No Rights to Awards; Non Uniform Awards.** No Participant or any eligible Participant shall have any claim to be granted any Award under the Plan. Neither the Company, its Subsidiaries nor the Board is obligated to treat Participants or eligible Participants uniformly, and determinations made under the Plan may be made by the Board selectively among eligible Participants who receive, or are eligible to receive, Awards (whether or not such eligible Participants are similarly situated).

(b) **No Exercises Contrary to Law.** No Award under this Plan may be exercised by the holder thereof if such exercise, and the receipt of cash or stock thereunder, would be, in the opinion of counsel selected by the Board, contrary to law or the regulations of any duly constituted authority having jurisdiction over this Plan.

(c) **No Right to Employment.** This Plan will not confer upon any Participant any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor will it interfere in any way with any right the Company or any Subsidiary would otherwise have to terminate such Participant's employment or other service at any time.

(d) **Authorized Leaves.** Absence on leave approved by a duly constituted officer of the Company or any of its Subsidiaries shall not be considered interruption or termination of service of any employee for any purposes of this Plan or Awards granted hereunder, except that no Awards may be granted to an employee while he or she is absent on leave.

(e) **No Rights as a Stockholder.** No Participant shall have any rights as a stockholder with respect to any shares subject to Awards granted to him or her under this Plan prior to the date as of which he or she is actually recorded as the holder of such shares upon the stock records of the Company.

(f) **Conflicts.** In the event any provision of any Award granted under the Plan shall conflict with any term in the Plan, the term in the Plan shall control.

(g) **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.

(h) **Successors and Assigns.** The 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.

(i) **Severability.** If any provision of the Plan or any Award Agreement shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Plan or Award Agreement, and the Plan and each Award Agreement shall each be construed and enforced as if the invalid provisions had never been set forth therein.

(j) **No Strict Construction.** No rule of strict construction shall be applied against the Company or any other person in the interpretation of any of the terms of the Plan, any Award Agreement, any Award granted under the Plan, or any rule, regulation or procedure established by the Board.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Philip G. Heasley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ACI Worldwide, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable 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: August 10, 2007

/s/ PHILIP G. HEASLEY

Philip G. Heasley
President, Chief Executive Officer
and Director

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Henry C. Lyons, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ACI Worldwide, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable 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: August 10, 2007

/s/ HENRY C. LYONS

Henry C. Lyons
*Senior Vice President, Chief Financial Officer and
Chief Accounting Officer*

**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 ACI Worldwide, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2007 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: August 10, 2007

/s/ PHILIP G. HEASLEY

Philip G. Heasley
*President, Chief Executive Officer
and Director*

**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 ACI Worldwide, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Henry C. Lyons, 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: August 10, 2007

/s/ HENRY C. LYONS

Henry C. Lyons
*Senior Vice President, Chief Financial Officer and
Chief Accounting Officer*
