# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended**

**or**

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

**For the transition period from October 1, 2007 to December 31, 2007**

**Commission File Number 0-25346**

# ACI WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)

| **Delaware** | **47-0772104** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **120 Broadway, Suite 3350 New York, New York 10271** | **(646) 348-6700** |
| (Address of principal executive offices, including zip code) | (Registrant's telephone number, including area code) |

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

Yes x No o

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 x Accelerated filer o Non-accelerated filer o

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

Yes o No x

As of February 15, 2008, there were 35,953,352 shares of the registrant's common stock outstanding.

**TABLE OF CONTENTS**

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

| | December 31, 2007 (unaudited) | September 30, 2007 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 97,011 | $ 60,794 |
| Billed receivables, net of allowances of $1,723 and $2,041 | 87,932 | 70,384 |
| Accrued receivables | 11,132 | 11,955 |
| Deferred income taxes, net | 5,374 | 7,088 |
| Recoverable income taxes | 6,033 | 3,852 |
| Prepaid expenses | 9,803 | 10,572 |
| Other current assets | 8,399 | 7,233 |
| **Total current assets** | 225,684 | 171,878 |
| Property, plant and equipment, net | 19,503 | 19,356 |
| Software, net | 31,430 | 31,764 |
| Goodwill | 206,770 | 205,715 |
| Other intangible assets, net | 38,088 | 39,685 |
| Deferred income taxes, net | 31,283 | 24,315 |
| Other assets | 17,700 | 14,028 |
| **TOTAL ASSETS** | $ 570,458 | $ 506,741 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable | $ 16,351 | $ 14,677 |
| Accrued employee compensation | 22,659 | 22,625 |
| Deferred revenue | 115,519 | 97,042 |
| Income taxes payable | — | 2,251 |
| Accrued and other current liabilities | 32,323 | 17,925 |
| **Total current liabilities** | 186,852 | 154,520 |
| Deferred revenue | 27,253 | 30,280 |
| Note payable under credit facility | 75,000 | 75,000 |
| Deferred income taxes, net | 3,245 | 3,265 |
| Other noncurrent liabilities | 37,069 | 18,664 |
| **Total liabilities** | 329,419 | 281,729 |
| Commitments and contingencies | | |
| **Stockholders' equity** | | |
| Preferred stock , $0.01 par value; 5,000,000 shares authorized; no shares issued and outstanding at December 31, 2007 and September 30, 2007, respectively | — | — |
| Common stock; $0.005 par value; 70,000,000 shares authorized; 40,821,516 shares issued at December 31, 2007 and September 30, 2007 | 204 | 204 |
| Common stock warrants | 24,003 | — |
| Treasury stock, at cost, 5,144,947 and 5,115,367 shares outstanding at December 31, 2007 and September 30, | (140,320) | (140,340) |

| | | |
|---|---|---|
| 2007, respectively | | |
| Additional paid-in capital | 311,108 | 312,642 |
| Retained earnings | 47,886 | 53,226 |
| Accumulated other comprehensive loss | (1,842) | (720) |
| **Total stockholders' equity** | 241,039 | 225,012 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 570,458 | $ 506,741 |

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



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

| | Three Months Ended December 31, | |
|---|---|---|
| | 2007 | 2006 |
| **Revenues:** | | |
| Software license fees | $ 46,266 | $ 41,185 |
| Maintenance fees | 32,167 | 28,729 |
| Services | 22,849 | 23,375 |
| **Total revenues** | 101,282 | 93,289 |
| **Expenses:** | | |
| Cost of software license fees | 10,214 | 10,211 |
| Cost of maintenance and services | 24,689 | 24,147 |
| Research and development | 16,411 | 11,985 |
| Selling and marketing | 20,673 | 18,150 |
| General and administrative | 26,443 | 23,831 |
| **Total expenses** | 98,430 | 88,324 |
| **Operating income** | 2,852 | 4,965 |
| **Other income (expense):** | | |
| Interest income | 763 | 885 |
| Interest expense | (1,389) | (1,460) |
| Other, net | (334) | (293) |
| **Total other income (expense)** | (960) | (868) |
| **Income before income taxes** | 1,892 | 4,097 |
| Income tax expense | 3,908 | 1,476 |
| **Net income (loss)** | $ (2,016) | $ 2,621 |
| **Earnings per share information** | | |
| Weighted average shares outstanding | | |
| Basic | 35,700 | 37,182 |
| Diluted | 35,700 | 38,035 |
| **Earnings per share** | | |
| Basic | $ (0.06) | $ 0.07 |
| Diluted | $ (0.06) | $ 0.07 |

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



**ACI WORLDWIDE, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND OTHER COMPREHENSIVE LOSS**
**(unaudited and in thousands)**

| | Common Stock | Common Stock Warrants | Treasury Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|---|---|
| **Balance at September 30, 2007** | $ 204 | $ — | $ (140,340) | $ 312,642 | $ 53,226 | $ (720) | $ 225,012 |
| Comprehensive loss information: | | | | | | | |
| Net loss | — | — | — | — | (2,016) | — | (2,016) |
| Other comprehensive loss: | | | | | | | |
| Foreign currency translation adjustments | — | — | — | — | — | (1,122) | (1,122) |
| Comprehensive loss | | | | | | | (3,138) |
| Repurchase of common stock | — | — | (3,708) | — | — | — | (3,708) |
| Issuance of common stock pursuant to Employee Stock Purchase Plan | — | — | 2,165 | (631) | — | — | 1,534 |
| Exercises of stock options | — | — | 1,563 | (953) | — | — | 610 |
| Stock option settlements | — | — | — | (151) | — | — | (151) |
| Tax benefit of stock options exercised | — | — | — | 206 | — | — | 206 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| and cash settled | | | | | | | |
| Stock-based compensation | — | — | — | (5) | — | — | (5) |
| Issuance of common stock warrants | — | 24,003 | — | — | — | — | 24,003 |
| Cumulative effect of a change in accounting principle - adoption of FIN 48 | — | — | — | — | (3,324) | — | (3,324) |
| **Balance at December 31, 2007** | $ 204 | $ 24,003 | $ (140,320) | $ 311,108 | $ 47,886 | $ (1,842) | $ 241,039 |

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



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

| | For the Three Months Ended December 31, | |
|---|---|---|
| | **2007** | **2006** |
| Cash flows from operating activities: | | |
| Net income (loss) | $ (2,016) | $ 2,621 |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities | | |
| Depreciation | 1,496 | 1,379 |
| Amortization | 3,724 | 3,499 |
| Tax expense of intellectual property shift | 591 | 478 |
| Amortization of debt financing costs | 84 | 84 |
| Gain on transfer of assets under contractual obligations | (386) | (404) |
| Loss on disposal of assets | 17 | 54 |
| Change in fair value of interest rate swaps | 2,475 | — |
| Deferred income taxes | (741) | 1,658 |
| Stock-based compensation expense (recovery) | (5) | 1,748 |
| Tax benefit of stock options exercised and cash settled | 97 | 121 |
| Changes in operating assets and liabilities, net of impact of acquisitions: | | |
| Billed and accrued receivables, net | (17,552) | 9,564 |
| Other current assets | (384) | (247) |
| Other assets | (702) | 121 |
| Accounts payable | 2,799 | (2,733) |
| Accrued employee compensation | (73) | (13,145) |
| Accrued liabilities | 3,982 | 2,574 |
| Payment of class action litigation settlement | — | (8,450) |
| Current income taxes | 2,443 | (1,788) |
| Deferred revenue | 16,171 | (54) |
| Other current and noncurrent liabilities | 103 | 2,309 |
| Net cash flows from operating activities | 12,123 | (611) |
| | | |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (2,227) | (4,648) |
| Purchases of software and distribution rights | (1,658) | (431) |
| Purchases of marketable securities | — | (2,500) |
| Proceeds from transfer of assets under contractual arrangement | 500 | 500 |
| Acquisition of businesses, net of cash acquired | (47) | (6,757) |
| Proceeds from alliance agreement, net of common stock warrants | 9,330 | — |
| Net cash flows from investing activities | 5,898 | (13,836) |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 279 | — |
| Proceeds from issuance of common stock warrants | 24,003 | — |
| Payments for cash settlement of stock options | — | (285) |
| Proceeds from exercises of stock options | 610 | 25 |
| Excess tax benefit of stock options exercised | 109 | 17 |
| Purchases of common stock | (3,994) | (4,353) |
| Payments on debt and capital leases | (625) | (1,489) |
| Net cash flows from financing activities | 20,382 | (6,085) |
| | | |
| Effect of exchange rate fluctuations on cash | (2,186) | 284 |
| Net increase (decrease) in cash and cash equivalents | 36,217 | (20,248) |
| Cash and cash equivalents, beginning of period | 60,794 | 110,148 |
| Cash and cash equivalents, end of period | $ 97,011 | $ 89,900 |
| | | |
| Supplemental cash flow information | | |
| Income taxes paid, net | $ 243 | $ 4,176 |
| Interest paid | $ 1,271 | $ 288 |

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

**ACI WORLDWIDE, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(unaudited and in thousands)**

**1. Consolidated Financial Statements**

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 December 31, 2007, and for the three months ended December 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, 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.

**Change in Fiscal Year End**

Effective January 1, 2008, the Company changed its fiscal year end from September 30 to December 31. As a result of this change, the Company's transition period from October 1, 2007 to December 31, 2007 is covered by this Transition Report. The Company's new fiscal year commenced January 1, 2008 and will end on December 31, 2008. The Company has changed its fiscal year end to align its sales contracting and delivery processes with its customers and to allow for more effective communication with the capital markets and investment community by being consistent with its peer group.

**Acquisitions**

*Visual Web Solutions, Inc.*

On February 7, 2007, the Company acquired Visual Web Solutions, Inc. ("Visual Web"), a provider of international trade finance and web-based cash management solutions, primarily to financial institutions in the Asia/Pacific region. These solutions complement and have been integrated with the Company's United States-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 December 31, 2007 and for the three months then ended include amounts acquired from, as well as the results of operations of, Visual Web.

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 preliminary allocation of the purchase price to specific assets and liabilities was based, in part, upon outside appraisals of the fair value of certain assets. The finalization of the purchase price allocation may result in certain adjustments to the preliminary amounts including tax contingencies and escrow settlements.

*Stratasoft Sdn Bhd*

On April 2, 2007, the Company acquired Stratasoft Sdn Bhd ("Stratasoft"), a provider of electronic payment solutions in Malaysia. This acquisition compliments the Company's strategy to move to a direct sales model in selected markets in Asia.



The consolidated financial statements as of December 31, 2007 and for the three months then ended include amounts acquired from, as well as the results of operations of, Stratasoft.

The aggregate purchase price of Stratasoft, including direct costs of the acquisition, was $2.5 million, net of $0.7 million of cash acquired. The preliminary allocation of the purchase price to specific assets and liabilities was based, in part, upon outside appraisals of the fair value of certain assets. The finalization of the purchase price allocation may result in certain adjustments to the preliminary amounts including bad debt reserves, tax contingencies, earn out and escrow settlements.

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. The Company is continuing to assess the additional amounts payable to the sellers of Stratasoft, if any, for the period ending December 31, 2007 in accordance with the targets set forth in the purchase agreement. Upon completion of this assessment, any additional amounts would be recorded as an increase to goodwill in the accompanying consolidated balance sheet.

Under the terms of the acquisition, the parties established a cash escrow arrangement in which $0.5 million of the cash consideration paid at closing is held in escrow as security for tax and other contingencies.

**Recently Issued Accounting Standards**

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") 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 fiscal years beginning after November 15, 2007, 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 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 fiscal years beginning after November 15, 2007. 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 does not expect the adoption of SFAS 159 to have an impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"), which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008. The Company will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains it controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for fiscal years, and



interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the impact, if any, the adoption of SFAS 160 will have 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 Securities and Exchange Commission ("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 post contract 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 reference to stated renewals with 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 stated 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 receive or exchange for 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 has the right to change or alternate its use of currently licensed products, revenue is recognized upon delivery of the first copy of all of the licensed products, 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 or include PCS terms that fail to achieve VSOE of fair value due to non-substantive renewal periods. For these arrangements, VSOE of fair value of PCS does not exist and revenues are therefore recognized ratably over the contractually specified 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 December 31, | |
|---|---|---|
| | 2007 | 2006 |
| Software license fees | $ 2,576 | $ 1,938 |
| Maintenance fees | 1,101 | 1,296 |
| Services | 1,317 | 1,032 |
| Total | $ 4,994 | $ 4,266 |

*Maintenance Fees*. The Company typically enters into multi-year time-based software license arrangements that vary in length but are generally 5 years. These arrangements include an initial (bundled) PCS term of 1 or 2 years with subsequent renewals for additional years within the initial license period. For arrangements in which the Company looks to substantive renewal rates to evidence VSOE of fair value of PCS and in which the PCS renewal rate and term are substantive, VSOE of fair value of PCS is determined by reference to the stated renewal rate. For these arrangements, PCS revenues are recognized ratably over the PCS 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 separate provisions of Emerging Issues Task Force (EITF) 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.

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.

*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.

**3. Share-Based Compensation Plans**

*Employee Stock Purchase Plan*

Under the Company's 1999 Employee Stock Purchase Plan (the "ESPP"), a total of 1,500,000 shares of the Company's common stock have been reserved for issuance to eligible employees. Participating employees are permitted to designate up to the lesser of $25,000 or 10% of their annual base compensation for the purchase of common stock under the ESPP. Purchases under the ESPP are made one calendar month after the end of each fiscal quarter. The price for shares of common stock purchased under the ESPP is 85% of the stock's fair market value on the last business day of the three-month participation period. Shares issued under the ESPP during the three months ended December 31, 2007 totaled 78,932. No shares were issued under the ESPP during the three months ended December 31, 2006, while the Company was not current with its filings with the SEC.

*Accounting for Share-Based Payments Pursuant to SFAS No. 123(R)*

The Company adopted SFAS No. 123(R) as of October 1, 2005 using the modified prospective transition method. This revised accounting standard eliminated the ability to account for share-based compensation transactions using the intrinsic value method in accordance with APB Opinion No. 25, and requires instead that such transactions be accounted for using a fair-value-based method. SFAS No. 123(R) requires entities to record noncash compensation expense related to payment for employee services by an equity award in their financial statements over the requisite service period. In March 2005, the SEC issued SAB 107, which does not modify any of SFAS No. 123(R)'s conclusions or requirements, but rather includes recognition, measurement and disclosure guidance for companies as they implement SFAS No. 123(R).

Upon adoption of SFAS No. 123(R), all of the Company's existing share-based compensation awards were determined to be equity classified awards. A portion of these options were reclassified to liability classification as they were subsequently cash settled. Under the modified prospective



transition method, the Company is required to recognize noncash compensation costs for the portion of share-based awards that are outstanding as of October 1, 2005 for which the requisite service has not been rendered (i.e., nonvested awards). These compensation costs are based on the grant date fair value of those awards as calculated for pro forma disclosures under SFAS No. 123. The Company is recognizing compensation costs related to the nonvested portion of those awards in the financial statements from the SFAS No. 123(R) adoption date through the end of the requisite service period.

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

| | Number of Shares | Weighted-Average Exercise Price ($) | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value of In-the-Money Options ($) |
|---|---|---|---|---|
| Outstanding, September 30, 2007 | 3,708,431 | $ 22.35 | | |
| Granted | — | — | | |
| Exercised | (51,160) | 10.75 | | |
| Cancelled/Forfeited/Expired | (66,946) | 27.39 | | |
| Outstanding, December 31, 2007 | 3,590,325 | $ 22.43 | 6.82 | $ 9,459,896 |
| Exercisable, December 31, 2007 | 1,822,578 | $ 16.27 | 5.34 | $ 9,459,896 |

No stock options were granted during the three months ended December 31, 2007 or 2006. The Company issued treasury shares for the exercise of stock options during the three months ended December 31, 2007 and 2006. The total intrinsic value of stock options exercised during the three months ended December 31, 2007 and 2006 was $0.6 million and $0.1 million, respectively.

The Company did not grant any long-term incentive program performance share awards ("LTIP Performance Shares") pursuant to the Company's 2005 Equity and Performance Incentive Plan, as amended, during the three months ended December 31, 2007 or 2006. A summary of nonvested LTIP Performance Shares as of December 31, 2007 and changes during the three months then ended is as follows:

| Nonvested LTIP Performance Shares | Number of Shares at Expected Attainment | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Nonvested at September 30, 2007 | 312,117 | $ 31.95 |
| Granted | — | — |
| Vested | — | — |
| Change in expected attainment for fiscal 2005 and 2006 grants | (132,110) | 29.00 |
| Forfeited or expired | (5,060) | 29.10 |
| Nonvested at December 31, 2007 | 174,947 | $ 34.25 |

These LTIP Performance Shares are earned, if at all, based upon the achievement, over a specified period that must not be less than one year and is typically 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.



Though September 30, 2007, the Company had accrued compensation costs assuming an attainment level of 110% for the awards granted in fiscal 2005 and 2006. During the three months ended December 31, 2007, the Company changed the expected attainment to 0% based upon revised forecasted diluted earnings per share, which the Company does not expect will achieve the predetermined minimum threshold level required for the LTIP Performance Shares granted in fiscal 2005 and 2006 to be earned. As the performance goals are now considered improbable of achievement, the Company has reversed compensation costs related to the awards granted in fiscal 2005 and 2006 resulting in a $2.1 million reduction in operating expenses during the three months ended December 31, 2007.

Based on revised forecasts for the performance period of the awards granted during the year ended September 30, 2007, management currently believes that an achievement level of 100% will be attained for those awards.

As of December 31, 2007, there were unrecognized compensation costs of $15.2 million related to nonvested stock options and $2.9 million related to nonvested LTIP Performance Shares which the Company expects to recognize over weighted-average periods of 2.7 years and 2.0 years, respectively.

Excluding the impact of the reversal of compensation expense for the LTIP awards granted in fiscal 2005 and 2006, the Company recorded stock-based compensation expenses in accordance with SFAS No. 123(R) for the three months ended December 31, 2007 and 2006 related to stock options, LTIP Performance Shares, and the ESPP of $2.1 million and $1.9 million, respectively, with corresponding tax benefits of $0.8 million and $0.8 million, respectively. Tax benefits in excess of the option's grant date fair value under SFAS No. 123(R) are classified as financing cash flows. No stock-based compensation costs were capitalized during the three months ended December 31, 2007 and 2006. 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.

Cash received from option exercises for the three months ended December 31, 2007 and 2006 was $0.6 million and $0.1 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled $0.2 million and $0.1 million for the three months ended December 31, 2007 and 2006, respectively.

During the three months ended December 31, 2007, the Company reclassified 31,393 vested options from equity classification to liability classification, as these options were expected to cash settle subsequent to December 31, 2007 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 liability of approximately $0.1 million and recorded compensation expense of $0.1 million in the three months ended December 31, 2007.

**4. Goodwill**

Changes in the carrying amount of goodwill attributable to each reportable operating segment during the three months ended December 31, 2007, consisting primarily of foreign currency translation adjustments, were as follows (in thousands):

| | Total |
|---|---|
| Balance, September 30, 2007 | $ 205,715 |
| Foreign currency translation adjustments | 628 |
| Adjustments - S2 (1) | 13 |
| Adjustments - Visual Web (2) | 414 |
| Balance, December 31, 2007 | $ 206,770 |

(1) Adjustment to S2 Systems, Inc. acquisition relates to settlement of escrow balances in accordance with the purchase agreement.
(2) Visual Web purchase accounting adjustment relates to an adjustment to deferred tax balances.



**5. 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):

| | December 31, 2007 | September 30, 2007 |
|---|---|---|
| Internally-developed software | $ 13,299 | $ 13,302 |
| Purchased software | 82,410 | 80,836 |
| | 95,709 | 94,138 |
| Less: accumulated amortization | (64,279) | (62,374) |

| | | |
|---|---|---|
| Software, net | $ 31,430 | $ 31,764 |

At December 31, 2007, the software net book value includes the following software purchased through acquisitions which is being marketed for external sale: $1.7 million of S2 Systems, Inc. purchased software, $3.4 million of eps Electronic Payment Systems AG purchased software, $17.7 million of P&H Solutions, Inc. purchased software and $1.1 million of Visual Web purchased software. The remaining software net book value of $7.5 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 three months ended December 31, 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 three months ended December 31, 2007 and 2006 totaled $2.1 million and $1.9 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):

| | December 31, 2007 | September 30, 2007 |
|---|---|---|
| Customer relationships | $ 40,538 | $ 40,488 |
| Purchased contracts | 11,593 | 11,643 |
| Trademarks and tradenames | 2,266 | 2,246 |
| Covenant not to compete | 1,546 | 1,531 |
| | 55,943 | 55,908 |
| Less: accumulated amortization | (17,855) | (16,223) |
| Other intangible assets, net | $ 38,088 | $ 39,685 |

Other intangible assets amortization expense recorded in the three months ended December 31, 2007 and 2006 totaled $1.6 million and $1.6 million, respectively.



The Company added other intangible assets of $1.2 million and $1.3 million, respectively, from the acquisitions of Visual Web and Stratasoft during the year ended September 30, 2007. Based on capitalized intangible assets at December 31, 2007, estimated amortization expense for future fiscal years is as follows (in thousands):

| Fiscal Year Ending December 31, | Software Amortization | Other Intangible Assets Amortization |
|---|---|---|
| 2008 | $ 8,533 | $ 6,439 |
| 2009 | 7,894 | 6,265 |
| 2010 | 6,825 | 6,221 |
| 2011 | 5,256 | 5,873 |
| 2012 | 2,549 | 4,801 |
| Thereafter | 373 | 8,489 |
| Total | $ 31,430 | $ 38,088 |

**6. Derivative Instruments and Hedging Activities**

The Company maintains an interest-rate risk-management strategy that uses derivative instruments to mitigate the risk of variability in future cash flows (and related interest expense) associated with currently outstanding and forecasted floating rate bank borrowings due to changes in the benchmark interest rate (LIBOR). The Company believes the resulting cost of funds is lower than it would have been had the Company converted the bank revolving facility to a fixed-rate structure.

At December 31, 2007, the Company had $75 million of outstanding variable-rate borrowings under a 5-year $150 million revolving facility that matures on September 29, 2011. The variable-rate benchmark is 3-month LIBOR. During the year ended September 30, 2007, the Company entered into two interest-rate swaps to convert its existing and forecasted variable-rate borrowing needs to fixed rates.

Although the Company believes that these interest rate swaps will mitigate the risk of variability in future cash flows associated with existing and forecasted variable rate borrowings during the term of the swaps, neither swap currently qualifies for hedge accounting. Accordingly, the change in the aggregate fair value liability for the three months ended December 31, 2007 of $2.5 million is reflected as expense in other income (expense), net in the accompanying consolidated statements of operations. Changes in the fair value of the interest rate swaps during the three months ended December 31, 2007 were as follows (in thousands):

| | Asset (Liability) |
|---|---|
| Beginning fair value, September 30, 2007 | $ (2,077) |
| Loss recognized in earnings | (2,475) |
| Ending fair value, December 31, 2007 | $ (4,552) |

The fair value of the liability is recorded in other noncurrent liabilities in the accompanying consolidated balance sheets at December 31, 2007 and September 30, 2007.

Monthly net settlement payments are recorded in other income (expense) on the consolidated statements of operations, which was not material for the three months ended December 31, 2007.

Subsequent to December 31, 2007, events in the global credit markets have impacted the expectation of near-term variable borrowing rates. As a result, the Company has experienced an adverse impact to the fair value liability of its interest rate swaps. During January 2008, the fair value liability has increased approximately $2.4 million from a balance of $4.6 million as of December 31, 2007 to $7.0 million as of January 31, 2008.



**7. Corporate Restructuring and Other Reorganization Charges**

Changes in the liability for corporate restructuring charges during the three months ended December 31, 2007 were as follows:

| | Termination Benefits |
|---|---|
| Balance, September 30, 2007 | $ 2,726 |
| Additional restructuring charges incurred | 477 |
| Amounts paid during the period | (1,829) |
| Other | 23 |
| Balance, December 31, 2007 | $ 1,397 |

Other includes the impact of foreign currency translation.

Additional severance-related restructuring charges of $0.5 million were incurred in the EMEA operating region during the three months ended December 31, 2007.

At December 31, 2007 and September 30, 2007, the liabilities were classified as short-term in accrued employee compensation in the accompanying consolidated balance sheets.

The Company incurred $1.3 million of expense associated with the early termination of the corporate jet lease, which is included in general and administrative expenses for the three months ended December 31, 2007.

**8. Common Stock and Earnings 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):

| | Three Months Ended December 31, | |
|---|---|---|
| | 2007 | 2006 |
| Weighted average share outstanding: | | |
| Basic weighted average shares outstanding | 35,700 | 37,182 |
| Add: Dilutive effect of stock options, restricted stock awards and other dilutive securities | — | 853 |
| Diluted weighted average shares outstanding | 35,700 | 38,035 |

For the three months ended December 31, 2006, there were 0.5 million stock options outstanding that were excluded from the computation of shares contingently issuable upon exercise of the stock options because exercise prices exceeded the average market value of common stock during the period. For the three months ended December 31, 2007, 3.9 million options to purchase shares and contingently issuable shares were excluded from the diluted net income (loss) per share computation due to the net loss.



**9. Other Income/Expense**

Other income (expense) is comprised of the following items (in thousands):

| | Three Months Ended December 31, | |
|---|---|---|
| | 2007 | 2006 |
| Foreign currency transactions gains (losses) | $ 1,890 | $ (635) |
| Change in fair value of interest rate swap | (2,475) | — |
| Gain under contractual arrangement | 386 | 404 |
| Other | (135) | (62) |
| Total | $ (334) | $ (293) |

**10. Comprehensive Income**

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

| | Three Months Ended December 31, |
|---|---|

| | 2007 | 2006 |
|---|---|---|
| Net income (loss) | $ (2,016) | $ 2,621 |
| Foreign currency translation adjustments | (1,122) | 2,455 |
| Comprehensive income (loss) | $ (3,138) | $ 5,076 |

Accumulated other comprehensive loss included in the Company's consolidated condensed balance sheets represents the accumulated foreign currency translation adjustment. Since the undistributed earnings of the Company's foreign subsidiaries are considered to be indefinitely reinvested, the components of accumulated other comprehensive loss have not been tax effected.

**11. 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 makers review financial information presented on a consolidated basis, accompanied by disaggregated information about revenues and operating income by geographical region.



The Company allocated segment support expenses such as global product delivery, business operations and management based upon percentage of revenue per segment. Corporate costs are allocated as a percentage of the headcount by segment. The following are revenues and operating income (loss) for the periods indicated (in thousands):

| | Three Months Ended December 31, | |
|---|---|---|
| | 2007 | 2006 |
| Revenues: | | |
| Americas | $ 49,618 | $ 47,134 |
| EMEA | 43,094 | 37,555 |
| Asia/Pacific | 8,570 | 8,600 |
| | $ 101,282 | $ 93,289 |
| | | |
| Operating income (loss): | | |
| Americas | $ 2,883 | $ 2,622 |
| EMEA | 403 | 697 |
| Asia/Pacific | (434) | 1,646 |
| | $ 2,852 | $ 4,965 |

No single customer accounted for more than 10% of the Company's consolidated revenues during the three months ended December 31, 2007 or 2006. Aggregate revenues attributable to customers in the United Kingdom accounted for 14.9% and 12.8% of the Company's consolidated revenues during the three months ended December 31, 2007 and 2006, respectively.

**12. Income Taxes**

The effective tax rate for the three months ended December 31, 2007 and 2006 was approximately 206.6% and 36.0%, respectively. The effective tax rate for the three months ended December 31, 2007 was negatively impacted by losses in foreign countries in which the Company was not able to record tax benefits and by 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 three months ended December 31, 2006 was positively impacted primarily by a U.S. tax law change during the quarter that extended the research and development tax credit and negatively impacted primarily by the recognition of tax expense associated with the transfer of certain intellectual property rights out of the U.S

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48"). The Company adopted the provision of FIN 48 effective October 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the recognition and measurement of tax positions taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of FIN 48, the Company recognized a decrease to retained earnings of $3.3 million, which included at October 1, 2007 an increase of $2.7 million in net unrecognized tax benefits, which was accounted for as a decrease to the October 1, 2007 balance of retained earnings. In addition, reclassification in balance sheet accounts as required by FIN 48 resulted in an increase in noncurrent deferred income tax assets of $4.3 million, an increase in other long term assets of $1.5 million and an increase in other long term liabilities of $14.8 million. As of the date of adoption, the Company's gross unrecognized tax benefits totaled $16.2 million. Of this amount, $9.0 million represent the net unrecognized tax benefits that, if recognized, would favorably impact the effective income tax rate. No material amount of liability was added to the unrecognized tax benefit balance during the quarter. The Company does not anticipate settling any tax liabilities within the coming year.

The Company files income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions, and many foreign jurisdictions. The U.S., United Kingdom and Canada are the main taxing jurisdictions in which the Company operates. A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Company believes that the accruals for income taxes reflect the most probable outcome. The Company will adjust these accruals, as well as the related interest, in light of changing facts and circumstances. The years open for audit varies depending on the tax jurisdiction. In the US, the Company's tax returns for years following fiscal year 2003 are open for audit. In the UK, the Company's tax returns for years following 2002 are open for audit, while in Canada, the Company's tax returns for years following 1999 are open for audit.

The Company is currently being audited in the U.S. by the Internal Revenue Service covering the fiscal years 2005 and 2006.

The company is also currently under audit in the United Kingdom and Canada covering the fiscal years 2003 through 2005 and 2000 through 2004, respectively. As a result of these audits, the company believes it is reasonably possible that the total amount of unrecongized tax benefits could significantly increase or decrease within the next 12 months. The company is currently unable to estimate the amount of any such change.

The Company accrues interest related to uncertain tax positions in interest expense or interest income and recognizes penalties related to uncertain tax positions in other income or other expense. As of December 31, 2007, $1.4 million is accrued for the payment of interest and penalties related to income tax liabilities.

**13. 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*. 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 named certain former and current officers and directors as individual defendants. The Company was named as a nominal defendant. The plaintiff makes allegations related to the Company's historical stock option granting practices, and asserted 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 October 30, 2007, the lawsuit was dismissed with prejudice as to the individual plaintiff, Thomas J. Lieven, and without prejudice as to rights of the Company as nominal defendant.

**14. 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 legally 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 legally transferred under the agreement.

An initial payment of $0.5 million was due at signing and was paid in October 2006. The remaining $2.0 million is to be paid in installments through 2010. In accordance with the terms of the Asset Purchase Agreement, the Company had certain obligations to fulfill on behalf of the buyer. Among other things, the Company was 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 was reimbursed for such services at a rate equal to cost plus five percent. Additionally, the Company will remain a reseller of these products for royalty fee of 50% of revenues generated from sales. Subsequent to the close of the transaction, the Company signed a termination agreement for the Edmonton, Canada office lease and all further obligations effective March 31, 2007. The buyer was required to obtain facilities at another location and vacate the current premises on or before the termination date.

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 above transaction was not accounted for as a divestiture for accounting purposes. The accounting treatment for this type of transaction is outlined in SEC Staff Accounting Bulletin Topic 5E. Under this accounting treatment, the assets and liabilities to be divested are classified in other current assets and accrued other liabilities within the Company's consolidated balance sheet. Future payments will be recognized as gains in the period in which they are recovered. In October 2006 and 2007, the Company collected $0.5 million of cash pursuant to the contractual arrangements and recognized a pretax gain of $0.4 million in each period.

**15. International Business Machines Corporation Alliance**

On December 16, 2007, the Company entered into an Alliance Agreement ("Alliance") with International Business Machines Corporation ("IBM") relating to joint marketing and optimization of the Company's electronic payments application software and IBM's middleware and hardware platforms, tools and services. Under the terms of the Alliance, each party will retain ownership of its respective intellectual property and will independently determine product offering pricing to customers. In connection with the formation of the Alliance, the Company granted warrants to IBM to purchase up to 1,427,035 shares of the Company's common stock at a price of $27.50 per share and up to 1,427,035 shares of the Company's common stock at a price of $33.00 per share. The warrants are exercisable for five years.

Under the terms of the Alliance, on December 16, 2007, IBM paid the Company an initial non-refundable payment of $33.3 million in consideration for the estimated fair value of the warrants described above. The fair value of the warrants granted, as subsequently determined by an independent third party appraiser, is approximately $24.0 million and is recorded as common stock warrants in the accompanying consolidated balance sheet as of December 31, 2007. The remaining balance of $9.3 million is related to prepaid incentives and other obligations and is recorded in accrued and other current liabilities in the accompanying consolidated balance sheet as of December 31, 2007.

The future costs incurred by the Company related to internally developed software associated with the technical enablement milestones will be capitalized in accordance with SFAS No. 86, *Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed* ("SFAS No. 86"), when the resulting product reaches technological feasibility. Prior to reaching technological feasibility, the costs will be expensed as incurred. The Company will receive partial reimbursement



from IBM for expenditures incurred if certain technical enablement milestones and delivery dates specified in the Alliance are met. Reimbursements from IBM for expenditures determined to be direct and incremental to satisfying the technical enablement milestones will be used to offset the amounts expensed or capitalized as described above but not in excess of non-refundable cash received or receivable.

IBM will pay the Company additional amounts upon meeting certain prescribed obligations and incentives payable upon IBM recognizing revenue from end-user customers as a result of the Alliance. The revenue related to the incentive payments will be deferred until the Company has reached substantial completion of the technical enablement obligations. Subsequent to reaching substantial completion, revenue will be recognized as sales incentives are earned.

The stated initial term of the Alliance is five years, subject to extension for successive two year terms if not previously terminated by either party and subject to earlier termination for cause.



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

**Forward-Looking Statements**

This transition 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 recent acquisition of Visual Web Solutions, Inc., and Stratasoft Sdn Bhd 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 Item 1A in the section entitled "Risk Factors – Factors That May Affect Our Future Results or The Market Price of Our Common Stock."

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, 2007. Results for the three months ended December 31, 2007 are not necessarily indicative of results that may be attained in the future.

**Change in Fiscal Year End**

Effective January 1, 2008, we changed our fiscal year end from September 30 to December 31. As a result of this change, our transition period from October 1, 2007 to December 31, 2007 is covered by this Transition Report on Form 10-Q. This transition period will be audited in connection with our Annual Report on

Form 10-K for the year ending December 31, 2008. Our new fiscal year commenced January 1, 2008 and will end on December 31, 2008. We have changed our fiscal year end to align our sales contracting and delivery processes with our customers and to allow for more effective communication with the capital markets and investment community by being consistent with our peer group.

**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 its sales force 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 manage our global infrastructure more strategically.



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.

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 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.

- **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 fewer 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 the United States dollar, 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. Also during the year ended September 30, 2007, we entered into two interest rate swaps with a commercial bank whereby we pay a fixed rate of 5.375% and 4.90% and receive a floating rate indexed to the 3-month LIBOR from the counterparty on a notional amount of $75 million and $50 million that is not yet outstanding under the credit facility, respectively. Fluctuations in interest 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.

**International Business Machines Corporation Alliance**

On December 16, 2007, we entered into an Alliance Agreement ("Alliance") with International Business Machines Corporation ("IBM") relating to joint marketing and optimization of our electronic payments application software and IBM's middleware and hardware platforms, tools and services. Under the terms of the Alliance, each party will retain ownership of its respective intellectual property and will independently determine product offering pricing to customers. In connection with the formation of the Alliance, we granted warrants to IBM to purchase up to 1,427,035 shares of the Company's common stock at a price of $27.50 per share and up to 1,427,035 shares of the Company's common stock at a price of $33.00 per share. The warrants are exercisable for five years.

Under the terms of the Alliance, on December 16, 2007, IBM paid us an initial non-refundable payment of $33.3 million in consideration for the estimated fair value of the warrants described above. The fair value of the warrants granted, as subsequently determined by an independent third party appraiser, is approximately $24.0 million and is recorded as common stock warrants in the accompanying consolidated balance sheet as of December 31, 2007. The remaining balance of $9.3 million is



related to prepaid incentives and other obligations and is recorded in accrued and other current liabilities in the accompanying consolidated balance sheet as of December 31, 2007.

The future costs incurred by the Company related to internally developed software associated with the technical enablement milestones will be capitalized in accordance with SFAS No. 86, *Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed* ("SFAS No. 86"), when the resulting product reaches technological feasibility. Prior to reaching technological feasibility, the costs will be expensed as incurred. We will receive partial reimbursement from IBM for expenditures incurred if certain technical enablement milestones and delivery dates specified in the Alliance are met. Reimbursements from IBM for expenditures determined to be direct and incremental to satisfying the technical enablement milestones will be used to offset the amounts expensed or capitalized as described above but not in excess of non-refundable cash received or receivable.

IBM will pay us additional amounts upon meeting certain prescribed obligations and incentives payable upon IBM recognizing revenue from end-user customers as a result of the Alliance. The revenue related to the incentive payments will be deferred until the Company has reached substantial completion of the technical enablement obligations. Subsequent to reaching substantial completion, revenue will be recognized as sales incentives are earned.

The stated initial term of the Alliance is five years, subject to extension for successive two year terms if not previously terminated by either party and subject to earlier termination for cause.

**Acquisitions**

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. Visual Web has sales and customer support office in Singapore, and a product development facility in Bangalore, India. 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

On April 2, 2007, we acquired Stratasoft Sdn. Bhd. ("Stratasoft"). Stratasoft was 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. The aggregate purchase price of Stratasoft, including direct costs of the acquisition, was $2.5 million, net of $0.7 million of cash acquired.

**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 our 60-month backlog estimate.

We have substantially completed a comprehensive review of the assumptions used and data required in computing our backlog estimates. The 60-month and 12-month backlog estimates set forth below for the period ended September 30, 2007 have been revised to reflect these adjustments. The revisions resulted in an increase in the 60-month backlog estimate of $14 million and a decrease in the 12-month backlog estimate of $2.5 million, the majority of which is monthly recurring revenue for the period ended September 30, 2007.

The review identified two categories of adjustments which are reflected in the above revision:

- Adjustments due to inaccurate or incomplete data resulting in a historical over-statement of previously reported backlog estimates, and
- Adjustments required to conform with the recently adopted backlog policy resulting in a historical under-statement of previously reported backlog estimates.

While this review is substantially complete and we do not expect further adjustments to previously reported backlog estimates, we continue to review the processes, procedures, tools, and assumptions used in preparing backlog estimates.

In addition, we also completed a review of our customer renewal experience over the most recent 12-month period. The impact of this review resulted in a revision to the renewal assumptions used in computing the 60-month and 12-month backlog estimates. For comparability purposes, September 30, 2007 backlog estimates have been revised to reflect the updated renewal rate assumptions. This revision resulted in an increase in the 60-month backlog estimate of approximately $25 million and an increase in the 12-month backlog estimate of approximately $1.6 million, the majority of which is monthly recurring revenue for the period ended September 30, 2007.

The company expects to perform an annual review of customer renewal experience. In the event a revision to renewal assumptions is determined to be necessary, prior periods will be adjusted for comparability purposes.

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

| | December 31, 2007 | September 30, 2007 |
|---|---|---|
| Americas | $ 733 | $ 717 |
| EMEA | 504 | 489 |
| Asia/Pacific | 143 | 135 |
| Total | $ 1,380 | $ 1,341 |

We also estimate 12-month backlog, segregated between monthly recurring and non-recurring revenues, using a methodology consistent with the 60-month backlog estimate. Monthly recurring revenues include all monthly license fees, maintenance fees and processing services fees. Non-recurring revenues include other software license fees and services. Amounts included in 12-month backlog estimate assume renewal of one-time license fees on a monthly fee basis if such renewal is expected to occur in the next 12 months. The following table sets forth our 12-month backlog estimate, by geographic region, as of December 31, 2007 and September 30, 2007 (in millions):

| | December 31, 2007 | | | September 30, 2007 | | |
|---|---|---|---|---|---|---|
| | Monthly Recurring | Non-Recurring | Total | Monthly Recurring | Non-Recurring | Total |
| Americas | $ 130 | $ 30 | $ 160 | $ 125 | $ 34 | $ 159 |

| | | | | | | |
|---|---|---|---|---|---|---|
| EMEA | 73 | 66 | 139 | 70 | 66 | 136 |
| Asia/Pacific | 26 | 11 | 37 | 25 | 8 | 33 |
| Total | $ 229 | $ 107 | $ 336 | $ 220 | $ 108 | $ 328 |



Estimates of future financial results are inherently unreliable. Our backlog estimates require substantial judgment and are based on a number of assumptions as described above. These assumptions may turn out to be inaccurate or wrong, including for reasons outside of management's control. For example, 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 amounts 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 operating metrics, the estimates are not subject to the same level of internal review or controls as a GAAP financial measure.



**RESULTS OF OPERATIONS**

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 December 31, | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Amount | % of Total Revenue | Amount | % of Total Revenue |
| Revenues: | | | | |
| Initial license fees (ILFs) | $ 32,557 | 32.1% | $ 25,948 | 27.8% |
| Monthly license fees (MLFs) | 13,709 | 13.5% | 15,237 | 16.3% |
| Software license fees | 46,266 | 45.6% | 41,185 | 44.1% |
| Maintenance fees | 32,167 | 31.8% | 28,729 | 30.8% |
| Services | 22,849 | 22.6% | 23,375 | 25.1% |
| Total revenues | 101,282 | 100.0% | 93,289 | 100.0% |
| Expenses: | | | | |
| Cost of software licenses fees | 10,214 | 10.1% | 10,211 | 10.9% |
| Cost of maintenance and services | 24,689 | 24.4% | 24,147 | 25.9% |
| Research and development | 16,411 | 16.2% | 11,985 | 12.8% |
| Selling and marketing | 20,673 | 20.4% | 18,150 | 19.5% |
| General and administrative | 26,443 | 26.1% | 23,831 | 25.5% |
| Total expenses | 98,430 | 97.2% | 88,324 | 94.7% |
| Operating income | 2,852 | 2.8% | 4,965 | 5.3% |
| Other income (expense): | | | | |
| Interest income | 763 | 0.8% | 885 | 0.9% |
| Interest expense | (1,389) | -1.4% | (1,460) | -1.6% |
| Other, net | (334) | -0.3% | (293) | -0.3% |
| Total other income (expense) | (960) | -0.9% | (868) | -0.9% |
| Income before income taxes | 1,892 | 1.9% | 4,097 | 4.4% |
| Income tax expense | 3,908 | 3.9% | 1,476 | 1.6% |
| Net income (loss) | $ (2,016) | -2.0% | $ 2,621 | 2.8% |

**Revenues**

Total revenues for the three months ended December 31, 2007 increased $8.0 million, or 8.6%, as compared to the same period of 2006. Included in the three months ended December 31, 2007 revenue with no corresponding amount in the same period of 2006 was approximately $0.8 million of revenue related to the acquisitions of Visual Web and Stratasoft. Excluding the impact of the acquired businesses, total revenues increased primarily as a result of a $5.1 million, or 12.3%, increase in software license fee revenues, a $3.1 million, or 10.7%, increase in maintenance fee revenues partially offset by a $1.0 million or 4.2% decrease in services revenue.

The increase in software license fee revenues, excluding the impact of Visual Web and Stratasoft, during the three months ended December 31, 2007, as compared to the same period of 2006, is primarily due to greater license and capacity fee revenues in the America's and EMEA reportable operating segments. This increase is primarily due to increased capacity requirements for existing customers which is often combined with the renewal of license term.

The increase in maintenance fee revenues, excluding the impact of Visual Web and Stratasoft, during the three months ended December 31, 2007, as compared to the same period of 2006, is primarily a result of an increase in the number of customers in the EMEA reportable operating segment that achieved go live status since December 31, 2006.

The decrease in services revenues, excluding the impact of Visual Web and Stratasoft, during the three months ended December 31, 2007, as compared to the same period of 2006, resulted from a $1.3 million or a 17.7% decline of implementation services primarily in the EMEA reportable operating segment. This was a result of a series of large projects that were completed during the three months ended December 31, 2006. Recognition of implementation services is often a function of timing, as in this case, which drives variances between years. Processing services increased by $0.8 million or 10.7%, driven primarily by Enterprise Banker application services growth offset by the cancellation of a facilities management contract in the America's reportable operating segment.

**Expenses**

Total operating expenses for the three months ended December 31, 2007 increased $10.1 million, or 11.4%, as compared to the same period of 2006. Included in the three months ended December 31, 2007 operating expenses with no corresponding amount in the same period of 2006 was approximately $2.3 million of operating expenses related to acquired businesses.

Excluding the impact of the acquired businesses, total expenses increased primarily as a result of a $3.4 million, or 28.0% increase in research and development costs, a $2.3 million, or 12.8% increase in selling and marketing costs, a $2.5 million, or 10.5% increase in general and administrative costs, offset by a $0.1 million, or 0.5% decrease in maintenance and service costs and a $0.3 million, or 2.7% decrease in the cost of software license fees.

Cost of software license fees for the three months ended December 31, 2007 was consistent with the same period of 2006. Expenses of $0.3 million related to acquired businesses were incurred during the three months ended December 31, 2007.

Cost of maintenance and services for the three months ended December 31, 2007 increased $0.5 million, or 2.2%, as compared to the same period of 2006. Expenses of $0.6 million related to acquired businesses were incurred during the three months ended December 31, 2007.

Research and development ("R&D") costs for the three months ended December 31, 2007 increased $4.4 million, or 36.9%, as compared to the same period of 2006. The increase resulted from expenses of $1.1 million related to acquired businesses and $3.3 million of expenses associated with B24-eps R&D activities, build-out of ACI On Demand and other software optimization.

Selling and marketing costs for the three months ended December 31, 2007 increased $2.5 million, or 13.9%, as compared to the same period of 2006. The increase resulted from expenses of $0.2 million related to acquired businesses as well as an approximate $2.0 million increase in commissions driven by a relative increase in sales activity partly attributable to the change from a fiscal year to a calendar year-end. The remaining expense was driven by timing of advertising and promotions activities.

General and administrative costs for the three months ended December 31, 2007 increased $2.6 million, or 11.0%, as compared to the same period of 2006. Included in costs for the three months ended December 31, 2007 with no corresponding amount in the same period of 2006 are general and administrative costs of approximately $0.1 million related to acquired businesses. Additionally, included in the three months ended December 31, 2007, were $3.0 million of accounting and tax professional fees, $1.3 million of expense associated with early termination of the corporate jet lease, $0.7 million of restructuring and other employee related expense, $0.5 million of professional fees to support the IBM Alliance, $0.5 million of increased rent and utilities expense related to improvements made in our United Kingdom and Canada facilities and $0.4 million of other expenses offset by $1.3 million for release of the accrual related to LTIP Performance Shares granted in fiscal 2005 and 2006. Approximately $2.6 million of the expenses incurred in the three months ended December 31, 2006, with no corresponding amount during the same period in 2007, related to the historical stock option review and management analysis.

**Other Income and Expense.**

Other income and expense includes interest income and expense, foreign currency gains and losses, and other non-operating items. Fluctuating currency rates impacted the three months ended December 31, 2007 by $1.9 million in net foreign currency gains, as compared with $0.6 million in net losses during the same period in 2006. A $2.5 million loss on change in fair value of interest rate swaps was incurred during the three months ended December 31, 2007 with no corresponding amount in the same period of 2006. Interest income for the three months ended December 31, 2007 decreased $0.1 million or 13.8% as compared to the corresponding period of 2006. Interest expense was consistent for the three months ended December 31, 2007 and 2006.



**Income Taxes.**

The effective tax rate for the three months ended December 31, 2007 and 2006 was approximately 206.6% and 36.0%, respectively. The effective tax rate for the three months ended December 31, 2007 was negatively impacted by losses in foreign countries in which the Company was not able to record tax benefits and by 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 three months ended December 31, 2006 was positively impacted primarily by a U.S. tax law change during the quarter that extended the research and development tax credit and negatively impacted primarily by the recognition of tax expense associated with the transfer of certain intellectual property rights out of the U.S.

**Segment Results**

The following table presents revenues and operating income for the periods indicated by geographic region (in thousands):

| | Three Months Ended December 31, | |
|---|---|---|
| | 2007 | 2006 |
| Revenues: | | |
| Americas | $ 49,618 | $ 47,134 |
| EMEA | 43,094 | 37,555 |
| Asia/Pacific | 8,570 | 8,600 |
| | $ 101,282 | $ 93,289 |
| Operating income (loss): | | |
| Americas | $ 2,883 | $ 2,622 |

| | | |
|---|---|---|
| EMEA | 403 | 697 |
| Asia/Pacific | (434) | 1,646 |
| | $ 2,852 | $ 4,965 |

Revenues increased in the EMEA region by $5.5 million, or 14.7%, and in the Americas region by $2.5 million, or 5.3%, for the three months ended December 31, 2007 compared to the same period in 2006. Revenue for the Asia/Pacific region were consistent for the three months ended December 31, 2007 compared to the same period in 2006.

Operating income increased in the Americas region by $0.3 million, or 10.0%, for the three months ended December 31, 2007 compared to the same period in 2006. The increase in operating income in the Americas region is due to improved organic revenue performance and to a lesser extent, the integration of the acquisition of P&H Solutions, Inc. Operating income in the EMEA region declined $0.3 million or 42.2% for the three months ended December 31, 2007 compared to the same period in 2006. Operating income decreased in the Asia/Pacific region by $2.1 million for the three months ended December 31, 2007 compared to the same period in 2006. The decrease in operating income in the Asia/Pacific region is primarily due to margin impact related to acquired businesses of ($1.2) million and higher corporate and global support cost allocations.

**Liquidity and Capital Resources**

As of December 31, 2007, our principal sources of liquidity consisted of $97.0 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 December 31, 2007.

In December 2004, we announced that our Board of Directors approved a stock 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. In March 2007, our board of directors approved an increase of $100 million to our current repurchase authorization, bringing the total authorization to $210 million. Under the program to date, we have purchased approximately 4,409,729 shares for approximately $123 million. The maximum remaining dollar value of shares authorized for purchase under the stock repurchase program was approximately $87 million as of December 31, 2007. Purchases will be 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.

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.

*Cash Flows*

The following table sets forth summary cash flow data for the periods indicated. Please refer to this summary as you read our discussion of the sources and uses of cash in each period.

| | Three Months Ended December 31, | |
|---|---|---|
| | 2007 | 2006 |
| | (amounts in thousands) | |
| **Net cash provided by (used in):** | | |
| Operating activities | $ 12,123 | $ (611) |
| Investing activities | 5,898 | (13,836) |
| Financing activities | 20,382 | (6,085) |

Net cash flows provided by operating activities for the three months ended December 31, 2007 amounted to $12.1 million as compared to net cash flows used by operating activities of $0.6 million during the same period in 2006. The comparative period increase in net cash flows from operating activities of $12.7 million was principally the result of the following items: $8.5 million paid during the three months ended December 31, 2006 for settlement of the class action lawsuit, a $16.1 million increase in deferred revenue and a decrease in accruals for other expenses of $21.1 million in the three months ended December 31, 2007. These items were partially offset by a net loss of $2.0 million for the three months ended December 31, 2007 versus net income of $2.6 million for the same period in 2006 and decreased cash collections on customer receivables of $27.1 million in the three months ended December 31, 2007 as compared to the same period in 2006 and decreased non-cash expenses of $1.3 million, such as depreciation, amortization, change in fair value of interest rate swaps and deferred taxes.

Net cash flows provided by investing activities totaled $5.9 million in the three months ended December 31, 2007 as compared to $13.8 million used in investing activities during the same period in 2006. During the three months ended December 31, 2007, we used cash of $47,000 for a contingency payment under the S2 Systems, Inc. purchase agreement. We also used cash of $3.9 million to purchase software, property and equipment. These uses of cash flow were offset in the three months ended December 31, 2007 by $9.3 million received related to the IBM Alliance and $0.5 million in proceeds from asset transferred under contractual arrangement. During the three months ended December 31, 2006, we used cash of $2.5 million to increase our holdings of marketable securities and $5.1 million to purchase software, property and equipment. We also used cash of $6.2 million for the acquisition of eps Electronic Payment Systems AG and $0.6 million related to P&H Solutions, Inc during the three months ended December 31, 2006. These uses of cash flow were partially offset in the three months ended December 31, 2006 by $0.5 million provided by assets transferred under contractual arrangement.

Net cash flows provided by financing activities totaled $20.4 million in the three months ended December 31, 2007 as compared to net cash flows used of $6.1 million during the same period in 2006. In the three months ended December 31, 2007 and 2006, we used cash of $4.0 million and $4.4 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 $0.6 million and $1.5 million during the three months ended December 31, 2007 and 2006, respectively. In 2007 and 2006, we received proceeds of $0.7 million and $42,000, including corresponding excess tax benefits, from the exercises of stock options, respectively. In the three months ended December 31, 2007, we received $24.0 million for issuance of common stock warrants related to the IBM Alliance and $0.3 million in proceeds for the issuance of common stock for a purchase under our Employee Stock Purchase Plan.

We also realized a $2.2 million decrease in cash during the three months ended December 31, 2007 compared to a $0.3 million increase in cash during the same period of 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.

**Contractual Obligations and Commercial Commitments**

We are unable to reasonably estimate the ultimate amount or timing of settlement of our reserves for income taxes under FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes (as amended)*. The liability for unrecognized tax benefits at December 31, 2007 is $16.2 million.



**Critical Accounting Estimates**

The preparation of the consolidated 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. See Note 1, "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements for a further discussion of revenue recognition and other significant accounting policies.

*Revenue Recognition*

For software license arrangements for which services rendered are not considered essential to the functionality of the software, 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 post contract 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.

Our sales focus continues to shift from our more-established products to more complex arrangements involving multiple products inclusive of our BASE24-eps product and less-established (collectively referred to as "newer") products. As a result of this shift to newer products and more complex, multiple product arrangements, absent other factors, we initially experience an increase in deferred revenue and a corresponding decrease in current period revenue due to differences in the timing of revenue recognition for the respective products. Revenues from newer products are typically recognized upon acceptance or first production use by the customer whereas revenues from mature products, such as BASE24, are generally recognized upon delivery of the product, provided all other conditions for revenue recognition have been met. For those arrangements where revenues are being deferred and 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. BASE24-eps was reclassified as a mature product as of October 1, 2006.

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.

*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 December 31, 2007 and September 30, 2007, our intangible assets, net of accumulated amortization, were $38.1 million and $39.7 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.

As of December 31, 2007 and September 30, 2007, our goodwill was $206.8 million and $205.7 million, respectively. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"), we assess goodwill for impairment at least annually or when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. 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.

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

*Stock-Based Compensation*

Effective October 1, 2005 we began recording compensation expense associated with stock-based awards in accordance with 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, compensation cost associated with stock-based awards includes (1) amortization related to the remaining unvested portion of stock-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 stock-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), stock-based compensation cost for stock option awards 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 stock-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 option-pricing 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, stock-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 by us 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") were issued in fiscal 2007, fiscal 2006 and fiscal 2005. These awards are earned based on the achievement over a specified 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.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48"). The Company adopted the provision of FIN 48 effective October 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the

recognition and measurement of tax positions taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

**Recently Issued Accounting Standards**

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") 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 fiscal years beginning after November 15, 2007, although early adoption is permitted. We are currently assessing the potential effect, if any, of SFAS No. 157 on our 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 years beginning after November 15, 2007. 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 does not expect the adoption of SFAS 159 to have an impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"), which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008. We will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains it controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We are currently evaluating the impact, if any, the adoption of SFAS 160 will have on our consolidated financial statements.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Excluding the impact of changes in interest rates, there have been no material changes to our market risk for the three months ended December 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. Additionally, any decline in the value of the U.S. dollar in jurisdictions where the revenue contracts are denominated in U.S. dollars and operating expenses are incurred in local currency will have an unfavorable impact to operating margins. 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 December 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 $0.3 million annually.

During the year ended September 30, 2007, we entered into two interest rate swaps with a commercial bank whereby we pay a fixed rate of 5.375% and 4.90% and receive a floating rate indexed to the 3-month LIBOR from the counterparty on a notional amount of $75 million and $50 million, respectively. As of December 31, 2007, the fair value liability of the interest rate swaps was approximately $4.6 million and was included in Other Noncurrent Liabilities on the consolidated balance sheet. The potential additional loss in fair value liability of the interest rate swaps resulting from a hypothetical 10 percent adverse change in interest rates was approximately $1.4 million at December 31, 2007. Because our interest rate swaps do not qualify for hedge accounting, changes in the fair value of the interest rate swaps are recognized in the consolidated statement of operations, along with the related income tax effects.



Subsequent to December 31, 2007, events in the global credit markets have impacted the expectation of near-term variable borrowing rates. As a result, the Company has experienced an adverse impact to the fair value liability of its interest rate swaps. During January 2008, the fair value liability has increased approximately $2.4 million from a balance of $4.6 million as of December 31, 2007 to $7.0 million as of January 31, 2008.

**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, December 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, 2007, material weaknesses in internal control over financial reporting related to recognition of revenue and income taxes existed. A material weakness is defined in Public Company Accounting Oversight Board Auditing Standard No. 5 as a deficiency, or a combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement would not be prevented or detected on a timely basis. In connection with our overall assessment of internal control over financial reporting, we have evaluated the effectiveness of our internal controls as of December 31, 2007 and have concluded that the material weaknesses related to accounting for recognition of revenue and accounting for income taxes were not remediated as of December 31, 2007.

Except for the material weaknesses in internal control over financial reporting as referenced in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007, no other material weaknesses were identified in our evaluation of internal controls as of December 31, 2007.

*Changes in Internal Control Over Financial Reporting*

Remediation plans established and initiated by management in fiscal year 2007 continue to be implemented. There were no other changes in our internal controls over financial reporting during the quarter ended December 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.

**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 alleged 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 named certain former and current officers and directors as individual defendants. We were named as a nominal defendant.

The plaintiff made allegations related to our historical stock option granting practices, and asserted 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. On October 30, 2007, the lawsuit was dismissed with prejudice as to the individual plaintiff, Thomas J. Lieven, and without prejudice as to our rights as nominal defendant.

**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, 2007. 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:

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

Estimates of future financial results are inherently unreliable. Our backlog estimates require substantial judgment and are based on a number of assumptions, including management's current assessment of customer and third party 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 or third party partners 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 within 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. Additionally, because backlog estimates are operating metrics, the estimates are not subject to the same level of internal review or controls as a generally accepted accounting principles ("GAAP") financial measure.

**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 three months ended December 31, 2007:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program |
|---|---|---|---|---|
| October 1 through October 31, 2007 | 50,000 | $ 23.00 | 50,000 | $ 89,167,000 |
| November 1 through November 30, 2007 | 116,472 | $ 21.97 | 116,472 | $ 86,608,000 |
| December 1 through December 31, 2007 | — | $ — | — | $ 86,608,000 |
| Total (1) | 166,472 | $ 22.28 | 166,472 | |

(1) 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 million of our common stock, and that we intend to use existing cash and cash equivalents to fund these repurchases. In May 2006, our 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, our Board of Directors approved an increase of $100 million to its current repurchase authorization, bringing the total authorization to $210 million, of which approximately $87 million remains available. In June 2007, we implemented this previously announced increase to our share repurchase program. There is no guarantee as to the exact number of shares that will be repurchased by us. Repurchased shares are returned to the status of authorized but unissued shares of common stock. In March 2005, our 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 our Rule 10b5-1 plan, we have 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 us, through the independent broker, to purchase shares at times when we 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 our quarterly earnings release. During the three months ended December 31, 2007, all shares were purchased in open-market transactions.

In addition to the purchases set forth above, pursuant to Rule 10b5-1 plan, we reclassified 31,393 vested options from equity classification to liability classification, as these options were expected to cash settle subsequent to December 31, 2007 due to the suspension of option exercises because the Company was not current with its filings with the SEC. As a result, we recorded a liability of approximately $0.1 million and recorded compensation expense of $0.1 million in the three months ended December 31, 2007.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

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

Not applicable.

**Item 5. OTHER INFORMATION**

Not applicable.



**Item 6. EXHIBITS**

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

| Exhibit No. | | Description |
|---|---|---|
| 10.1 | | Master Alliance Agreement Between ACI Worldwide, Inc. and International Business Machines Corporation |
| 10.2 | | Warrant Agreement Between ACI Worldwide, Inc. and International Business Machines Corporation |
| 10.3 | | Warrant Agreement Between ACI Worldwide, Inc. and International Business Machines Corporation |
| 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 Executive 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 Financial Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 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.



**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: February 19, 2008

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



**EXHIBIT INDEX**

| Exhibit No. | | Description |
|---|---|---|
| 10.1 | | Master Alliance Agreement Between ACI Worldwide, Inc. and International Business Machines Corporation |
| 10.2 | | Warrant Agreement Between ACI Worldwide, Inc. and International Business Machines Corporation |
| 10.3 | | Warrant Agreement Between ACI Worldwide, Inc. and International Business Machines Corporation |
| 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.

**Exhibit 10.1**

EXECUTION COPY

**MASTER ALLIANCE AGREEMENT**

**BY AND BETWEEN**

**ACI WORLDWIDE, INC.**

**AND**

**INTERNATIONAL BUSINESS MACHINES CORPORATION**

**Dated as of December 16, 2007**

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**TABLE OF CONTENTS**

**ACI WORLDWIDE, INC. HAS REQUESTED THAT THE PORTIONS OF THIS DOCUMENT DENOTED BY BOXES AND ASTERISKS BE ACCORDED CONFIDENTIAL TREATMENT PURSUANT TO RULE 24b-2 PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1943.**

**MASTER ALLIANCE AGREEMENT**

THIS MASTER ALLIANCE AGREEMENT (this "Agreement"), dated as of December 16, 2007, is made and entered into by and between ACI WORLDWIDE, INC., a Delaware corporation ("ACI"), and INTERNATIONAL BUSINESS MACHINES CORPORATION, a New York corporation ("IBM"). ACI and IBM are each referred to herein as a "Party" and collectively as the "Parties".

**RECITALS**

A. WHEREAS, the Parties wish to enter into certain commercial and other arrangements relating to the integration of ACI's retail and wholesale electronic payment application software with IBM's middleware and hardware platforms for the purposes of developing new and enhancing existing electronic payment technology and products and otherwise improving each Party's ability to satisfy its customer needs, such efforts to be completed pursuant to the terms and subject to the conditions provided in this Agreement and in the other Alliance Agreements (such arrangements, as evidenced by the Alliance Agreements, collectively, the "Alliance").

B. WHEREAS, simultaneously with the execution of this Agreement, the Parties are entering into (a) the Sales and Marketing Agreement regarding the sales, marketing and communications strategy and obligations of the Parties, (b) the Enablement Assistance Agreement regarding the Parties' development projects and product compatibility requirements, (c) the Staff Augmentation Agreement regarding certain services to be provided by IBM to ACI in connection with the implementation of the Parties' development projects, (d) the Subcontracting Agreements setting forth the relationship of the Parties in the event that, in connection with providing services to any customer of the Parties in respect of the Alliance, one Party serves as a subcontractor of the other Party and (e) the Warrant Agreements setting forth the terms and conditions of the Warrants granted by ACI to IBM on the date hereof (collectively, together with this Agreement, the "Alliance Agreements").

C. WHEREAS, after the date hereof, the Parties will negotiate in good faith the terms of the Services Agreement regarding certain information technology and on-demand services to be provided by IBM to ACI.

D. WHEREAS, certain terms used in this Agreement shall have the meanings ascribed to them in the text of this Agreement or in Article I. The Exhibits and Annexes to this Agreement are all integral parts hereof.

NOW, THEREFORE, in consideration of the foregoing recitals and the representations, warranties, covenants and agreements contained herein, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:



**ACI WORLDWIDE, INC. HAS REQUESTED THAT THE PORTIONS OF THIS DOCUMENT DENOTED BY BOXES AND ASTERISKS BE ACCORDED CONFIDENTIAL TREATMENT PURSUANT TO RULE 24b-2 PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934.**

## ARTICLE I

## Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms shall have the meanings specified below:

"ACI Logo" shall mean the logo of ACI identified in Exhibit A.

"ACI Logo Usage Guidelines" shall mean the guidelines attached as Annex A. ACI may modify such guidelines from time to time upon 60 days prior written notice to IBM.

"ACI Software" shall have the meaning set forth in the Enablement Assistance Agreement.

"ACI Website" shall mean ACI's Website located at the following address: http://www.aciworldwide.com.

"Affiliate" shall mean, with respect to any Person, any other Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Alliance-Related Employee" shall mean any employee of ACI or IBM, as the case may be, who is made known to the other Party as a result of activities performed by such employee pursuant to the Alliance.

"Applicable Law" shall mean (a) any United States Federal, state, local or foreign law, statute, rule or regulation, or any order, writ, injunction, judgment, decree or permit of any Governmental Authority, or (b) any rule or listing requirement of any national stock exchange or Commission-recognized trading market on which securities issued by either of the Parties or any of their Subsidiaries are listed or quoted.

"Bankruptcy" shall mean, with respect to either Party, (a) the voluntary commencement of any proceeding or the voluntary filing of any petition by such Party seeking relief under any bankruptcy, insolvency, receivership or similar law; (b) the consent by such Party to the institution of, or the failure by such Party to contest in a timely and appropriate manner, any involuntary petition or any involuntary filing of the type described in clause (a) above; (c) such Party ceasing to do business as a going concern; (d) an assignment being made for the benefit of such Party's creditors; (e) such Party being adjudicated a bankrupt or an insolvent; or (f) the appointment of a trustee, receiver, liquidator or statutory manager in respect of such Party or all or any substantial part of such Party's assets or properties.

[_*_]



"Base Alliance Agreements" shall mean, collectively, this Agreement, the Sales and Marketing Agreement, the Enablement Assistance Agreement, the Staff Augmentation Agreement and the Subcontracting Agreements.

"Business Day" shall mean any day other than a Saturday or a Sunday on which banks are legally authorized to be open for the transaction of business in New York City.

"Business Partner" shall mean certain organizations that IBM has signed agreements with to promote, market and support certain IBM products and services.

"Capital Stock" shall mean any and all shares, interests, participations or other equivalents (however designated) of corporate stock, and any option, warrant or other right entitling the holder thereof to purchase or otherwise acquire any such corporate stock.

"Change in Control" shall mean (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Exchange Act) of Capital Stock representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding Capital Stock of ACI or (b) a majority of the members of the Board of Directors of ACI not consisting of Continuing Directors.

"Commission" shall mean the U.S. Securities and Exchange Commission.

"Combined Solution" shall have the meaning set forth in the Sales and Marketing Agreement.

"Confidentiality Agreement" shall mean the Agreement for Exchange of Confidential Information by and between ACI and IBM dated October 10, 2007.

"Continuing Directors" shall mean, as of any date of determination, any member of the Board of Directors of ACI who (a) was a member of such Board of Directors on the date hereof or (b) was nominated for election by the Nominating and Corporate Governance Committee of the Board of Directors of ACI or elected to such Board of Directors with the approval of at least two-thirds of the Continuing Directors who were members of such Board of Directors at the time of such election.

"Control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. The terms "Controlling" and "Controlled" have meanings correlative thereto.

"Deliverables" shall have the meaning set forth in the Enablement Assistance Agreement.

"Enablement Assistance Agreement" shall mean the IBM Enablement Assistance Agreement (No. 4907021871) by and between ACI and IBM dated the date hereof,





together with all exhibits, annexes and attachments thereto, as the same may be amended, modified and supplemented from time to time.

"Enablement Project Attachment" shall have the meaning set forth in the Enablement Assistance Agreement.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission promulgated thereunder.

"Existing Alliance Agreement" shall mean the ISV Advantage for Industries Agreement (No. 2006-NA-ST164) by and between ACI and IBM dated November 16, 2006.

"Existing Sales Incentive Agreement" shall mean the IBM Sales Incentive Agreement (No. 2007-NA-PS50) by and between ACI and IBM dated June 15, 2007.

"Governmental Authority" shall mean any international, supranational, national, provincial, regional, Federal, state, municipal or local government, any instrumentality, subdivision, court, administrative or regulatory agency or commission or other authority thereof, or any quasi-governmental or private body exercising any regulatory, taxing, importing or other governmental or quasi-governmental authority.

"Harmful Code" shall mean any computer programming code which is constructed with the intent to damage, interfere with or otherwise adversely affect other computer programs, data files or hardware, without the knowledge or consent of the computer user. "Harmful Code" includes, but is not limited to, self-replicating and self-propagating program instructions commonly referred to as "viruses" or "worms".

[_*_]

"IBM Assistance" shall mean IBM technical resources, assistance and expertise, excluding software development resources, which IBM provides ACI pursuant to Section 5.2 of the Enablement Assistance Agreement.

"IBM Logo" shall mean the logo of IBM identified in Exhibit B.

"IBM Logo Usage Guidelines" shall mean the guidelines attached as Annex B. IBM may modify such guidelines from time to time upon 60 days prior written notice to ACI.

"IBM Resources" shall have the meaning set forth in the Enablement Assistance Agreement.

"IBM Software" shall have the meaning set forth in the Enablement Assistance Agreement.





"IBM Website" shall mean IBM's Website located at the following address: http://www.ibm.com.

"Incentives" shall have the meaning given to such term in the Sales and Marketing Agreement.

"Invention" shall mean any idea, concept, know-how, technique, invention, discovery or improvement, whether or not patentable, that either Party, solely ("Sole Inventions") or jointly with the other Party ("Joint Inventions"), first conceives and reduces to practice during the term of the Alliance in the performance of an Alliance Agreement.

"Joint Inventions" shall have the meaning set forth in the definition of "Invention".

"Large Accounts" shall have the meaning set forth in the Sales and Marketing Agreement.

"Logo" shall mean the IBM Logo or the ACI Logo, as the context requires.

"Marketing Materials" shall mean only brochures, specifications, flyers and other printed marketing documents. Marketing Materials shall not include products, product packaging, program screens or promotional items (such as clothing, bags, glassware and writing instruments).

"Materials" shall mean (a) source code, executable code, technical documentation and all derivative works and enhancements thereto, (b) domestic and foreign copyrights and copyrightable works and (c) copyright applications filed by a Party, which are created and delivered in performance of an Alliance Agreement. The term "Materials" does not include licensed programs and other items available under their own license terms or agreements.

"Mega Accounts" shall have the meaning set forth in the Sales and Marketing Agreement.

[_*_]

"Optimization" shall have the meaning set forth in the Enablement Assistance Agreement.

"Optimized Product" shall have the meaning set forth in the Enablement Assistance Agreement.



"Patent" shall mean (a) domestic and foreign patents issuing to Inventions, together with all reissuances, continuations, divisionals, revisions, extensions and reexaminations thereof, and (b) patent applications to Inventions filed by a Party.

"Person" shall mean any natural person, corporation, general partnership, limited partnership, limited or unlimited liability company, proprietorship, joint venture, other business organization, trust, union, association, Governmental Authority or other entity.

"Proceeding" shall mean any action, litigation, arbitration, suit, claim, proceeding or investigation or review of any nature, civil, criminal, regulatory or otherwise, before any Governmental Authority.

"Sales and Marketing Agreement" shall mean the Sales and Marketing Agreement (No. 2007-NA-SMT001) by and between ACI and IBM dated the date hereof, together with all exhibits, annexes and attachments thereto, as the same may be amended, modified and supplemented from time to time.

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations of the Commission promulgated thereunder.

"Services" shall mean the services to be provided by ACI pursuant to the Enablement Assistance Agreement, including accomplishment of the Deliverables, and as more fully set forth in the applicable Enablement Project Attachments to the Enablement Assistance Agreement.

"Services Agreement" shall mean the agreement relating to the outsourcing of certain information technology and on-demand services by ACI to IBM, together with all exhibits, annexes and attachments thereto, to be negotiated in good faith by the Parties on terms consistent with the terms set forth in Section 6.07, as the same may be amended, modified and supplemented from time to time.

"Sole Inventions" shall have the meaning set forth in the definition of "Invention".

"Staff Augmentation Agreement" shall mean the Master Staff Augmentation Agreement by and between ACI and IBM dated the date hereof, together with all exhibits, annexes and attachments thereto, as the same may be amended, modified and supplemented from time to time.

"Subcontracting Agreements" shall mean, collectively, (a) the International Master Agreement for Subcontracting by and between ACI, as prime contractor, and IBM, as subcontractor, dated the date hereof, and (b) the International Master Agreement for Subcontracting by and between IBM, as prime

contractor, and ACI, as subcontractor, dated the date hereof, in each case (i) together with all exhibits, annexes and attachments thereto and (ii) as the same may be amended, modified and supplemented from time to time.



"Subsidiary" of any Person shall mean a corporation, company or other entity (a) more than 50% of whose outstanding shares or securities (representing the right to vote for the election of directors or other managing authority of such Person) are owned or Controlled, directly or indirectly, by such Person, but such corporation, company or other entity shall be deemed to be a Subsidiary only so long as such ownership or Control exists, or (b) which does not have outstanding shares or securities (as may be the case in a partnership, limited liability company, joint venture or unincorporated association), but more than 50% of whose ownership interest representing the right to make decisions for such entity is, now or hereafter owned or Controlled, directly or indirectly, by such Person, but such corporation, company or other entity shall be deemed to be a Subsidiary only so long as such ownership or Control exists.

"Transaction Document" shall have the meaning set forth in the Subcontracting Agreements.

"Warrant Agreements" shall mean, collectively, the Warrant Agreements by and between ACI and IBM, dated the date hereof, together with all attachments thereto, as the same may be amended, modified and supplemented from time to time.

"Warrant Shares" shall have the meaning ascribed to such term in the Warrant Agreements.

"Website" shall mean the IBM Website or the ACI Website, as the context requires.

SECTION 1.02. Other Defined Terms. As used in this Agreement, the following terms shall have the meanings given in the Sections set forth opposite such terms:

| Term | Section |
|---|---|
| ACI | Preamble |
| ACI Bylaws | 2.02(c) |
| ACI Charter | 2.02(c) |
| ACI Common Stock | 2.02(a) |
| ACI Preferred Stock | 2.02(a) |
| Agreement | Preamble |
| Alliance | Recitals |
| Alliance Agreements | Recitals |
| Alliance Executive | 5.01 |
| AMC | 5.02 |
| AMT | 5.01 |
| Confidential Information | 9.01 |
| Defaulting Party | 8.02(b) |



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| Term | Section |
|---|---|
| Development Executive | 5.02(a)(iii) |
| Disclosing Party | 9.01 |
| Finance Executive | 5.02(a)(v) |
| IBM | Preamble |
| IBM By-laws | 3.04(a)(i) |
| IBM Charter | 3.04(a)(i) |
| IBM Personnel | 10.01(b) |
| Indemnified Party | 10.01 |
| Indemnifying Party | 10.01 |
| Initial Payment | 6.08(a)(i) |
| Initial Termination Notice | 8.01 |
| [_*_] | [_*_] |
| Migration Executive | 5.02(a)(iv) |
| [_*_] | [_*_] |
| Party | Preamble |
| Prime Contractor | 6.10(f)(i) |
| Receiving Party | 9.01 |
| [_*_] | [_*_] |
| Residual Ideas | 6.10(i) |
| Residual Information | 9.05 |

| | |
|---|---|
| Sales Executive | 5.02(a)(ii) |
| Senior Alliance Executive | 5.03(a) |
| Subcontractor | 6.10(f)(i) |
| Terminating Party | 8.02(b) |
| Termination Notice | 8.03 |
| Warrants | 6.01 |

SECTION 1.03. Terms Generally. Unless the context shall otherwise require, all defined terms shall apply equally to both the singular and plural forms of the terms defined. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation"; and the word "will" shall be construed to have the same meaning and effect as the word "shall". All references herein to Articles, Sections, Exhibits and Annexes shall be deemed to be references to Articles and Sections of, and Exhibits and Annexes to, this Agreement unless the context shall otherwise require. The table of contents and the headings of the Articles and Sections are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretations of this Agreement. Unless the context shall otherwise require, any reference to any agreement or other instrument or statute or regulation is to such agreement, instrument, statute or regulation as amended and supplemented from time to time (and, in the case of a statute or regulation, to any successor provision).



SECTION 1.04. Meaning of Day. Any reference in this Agreement to a "day" or a number of "days" (without the explicit qualification of "Business") shall be interpreted as a reference to a calendar day or number of calendar days. If any action or notice is to be taken or given on or by a particular calendar day, and such calendar day is not a Business Day, then such action or notice shall be deferred until, or may be taken or given, on the next Business Day.

## ARTICLE II

## Representations and Warranties of ACI

ACI hereby represents and warrants to IBM that:

SECTION 2.01. Organization and Standing. ACI (a) is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and (b) has all requisite power and authority to conduct its business as now conducted and as presently contemplated and to perform its obligations under the Alliance Agreements.

SECTION 2.02. Capital Stock, Warrants and Warrant Shares.

(a) The authorized Capital Stock of ACI consists of (i) 70,000,000 shares of common stock, par value $0.005, of ACI ("ACI Common Stock") and (ii) 5,000,000 shares of preferred stock, par value $0.01, of ACI ("ACI Preferred Stock"). As of December 12, 2007, (1) 35,675,884 shares of ACI Common Stock were issued and outstanding and no shares of ACI Preferred Stock were issued and outstanding, (2) 5,145,632 shares of ACI Common Stock were held in the treasury of ACI and (3) 3,893,404 shares of ACI Common Stock were reserved for issuance upon (x) exercise of then-outstanding options to purchase ACI Common Stock and (y) payout of shares of ACI Common Stock pursuant to then-outstanding performance share awards based on targeted award amounts, including options and performance shares granted to officers, directors or employees of ACI pursuant to ACI's incentive plans. Since December 12, 2007, other than upon exercise of options included in clause (3) of the immediately preceding sentence, (x) no shares of Capital Stock of ACI have been issued and (y) no options, warrants, securities convertible into, or commitments with respect to the issuance of shares of Capital Stock of ACI have been issued, granted or made.

(b) Except as set forth in Section 2.02(a), as of the date hereof, there are no outstanding subscriptions, options, calls, contracts, commitments, restrictions, arrangements, rights or warrants, including any right of conversion or exchange under any outstanding security, instrument or other agreement and also including any rights plan, obligating ACI or any Subsidiary of ACI to issue, deliver or sell, or to cause to be issued, delivered or sold, additional shares of the Capital Stock of ACI or obligating ACI or any of its Subsidiaries to grant, extend or enter into any such agreement or commitment. There are no outstanding stock appreciation rights or similar derivative securities or rights issued by ACI or any of its Subsidiaries or to which ACI or any of its Subsidiaries is a party.



(c) Each of the Warrants and the Warrant Shares have been duly authorized. When the Warrant Shares are issued and delivered in accordance with the terms of the respective Warrant Agreement, such Warrant Shares will have been validly issued and will be fully paid and nonassessable and free from all taxes, liens, claims and encumbrances, and the issuance thereof will not have been subject to any purchase option, right of first refusal, subscription right or preemptive right or made in contravention of the Amended and Restated Certificate of Incorporation of ACI, as in effect on the date hereof (the "ACI Charter") or the Amended and Restated Bylaws of ACI, as in effect on the date hereof (the "ACI Bylaws") or any Applicable Law.

(d) ACI has reserved solely for issuance and delivery, upon the exercise of the Warrants, the number of shares of ACI Common Stock that would be issuable if the Warrants were exercised in full immediately after the execution and delivery of the Warrant Agreements.

(e) Neither ACI, nor any of its Affiliates, nor any Person acting on its or their behalf, has directly or indirectly made any offers or sales of any security or solicited any offers to buy any security under circumstances that would require registration, or the filing of a prospectus qualifying the distribution, of the Warrants being issued pursuant to the Warrant Agreements under the Securities Act or cause the issuance of the Warrants to be integrated with any prior offering of securities of ACI for purposes of the Securities Act.

(f) IBM will, upon issuance of the Warrant Shares, have the rights set forth in the Warrant Agreements and under the General Corporation Law of the State of Delaware.

(g) Except for registration of securities on Form S-8 pursuant to employee compensation and incentive plans of ACI, there are no agreements or plans in effect on the date of this Agreement pursuant to which ACI has agreed to register any of its securities under the Securities Act.

SECTION 2.03. Authorization. The execution, delivery and performance by ACI of the Alliance Agreements have been duly authorized by all necessary corporate action.

SECTION 2.04. No Conflicts. The execution, delivery and performance by ACI of the Alliance Agreements do not, and the performance of its obligations thereunder and compliance with the terms thereof by ACI will not, conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, any provision of (i) the ACI Charter or the ACI Bylaws, (ii) any contract to which ACI or any of its Subsidiaries is a party or by which any of their respective properties or assets is bound or (iii) any Applicable Law, except, with respect to clause (ii) only, for such of the foregoing that is, individually and in the aggregate, immaterial to ACI and its Subsidiaries, taken as a whole, and that does not, individually or in the aggregate, affect the ability of ACI to timely perform its obligations under the Alliance Agreements.



SECTION 2.05. Execution and Delivery; Enforceability. Each Alliance Agreement has been duly executed and delivered by ACI, and is a legal, valid and binding obligation of ACI, enforceable against ACI in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, moratorium and other laws affecting the rights of creditors generally and general principles of equity.

SECTION 2.06. No Consents. No authorization, consent, approval, license, exemption or other action by, and no registration, qualification, designation, declaration or filing with, any Governmental Authority is or will be necessary (a) in connection with the execution and delivery by ACI of this Agreement and the other Alliance Agreements, the consummation of the transactions contemplated hereby and thereby, or the performance of or compliance with the terms and conditions hereof or thereof, or (b) to ensure the legality, validity and enforceability of any of the Alliance Agreements.

SECTION 2.07. No Litigation. As of the date hereof, there is no litigation or other proceeding pending or, to the knowledge of ACI, threatened against ACI or any of its Affiliates which, if adversely determined, could reasonably be expected to adversely affect the ability of ACI to perform its obligations hereunder or under any of the other Alliance Agreements.

SECTION 2.08. Financial Statements. The audited consolidated financial statements and unaudited consolidated interim financial statements of ACI included in the reports, schedules, forms, statements and other documents filed with the Commission by ACI since January 1, 2007 fairly present, in all material respects, the consolidated financial position of ACI and its Subsidiaries as of the dates thereof and their consolidated results of operations and cash flows for the periods then ended (subject to, in the case of unaudited interim financial statements, normal year end adjustments).

SECTION 2.09. ACI Software.

(a) Following Optimization pursuant to the Enablement Assistance Agreement, the ACI Software shall substantially comply with the specifications and requirements set forth in the Enablement Assistance Agreement.

(b) Following Optimization pursuant to the Enablement Assistance Agreement, the ACI Software that interacts in any capacity with monetary data that is required to be euro-ready at such time of use shall be euro-ready such that when used in accordance with its associated documentation it is capable of correctly processing monetary data in the euro denomination and respecting the euro currency formatting conventions (including the euro sign).

(c) The ACI Software and Deliverables furnished by ACI pursuant to the Enablement Assistance Agreement, prior to its use on any system or other medium in connection with the Enablement Assistance Agreement, shall be tested (in accordance with ACI's applicable testing standards) for, and will not, to ACI's knowledge, contain, Harmful Code.



SECTION 2.10. Performance of Services. ACI shall perform the Services using reasonable care and skill and in accordance with the Enablement Assistance Agreement.

SECTION 2.11. General. EXCEPT AS EXPRESSLY SET FORTH IN ANY ALLIANCE AGREEMENT, ACI EXPRESSLY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES OF NON-INFRINGEMENT, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. EXCEPT AS EXPRESSLY SET FORTH IN ANY ALLIANCE AGREEMENT, ANY ACI SOFTWARE, SERVICES OR DELIVERABLES AND OTHER ITEMS FURNISHED BY ACI PURSUANT TO THE ENABLEMENT ASSISTANCE AGREEMENT OR ANY OTHER ALLIANCE AGREEMENT ARE PROVIDED ON AN "AS IS" BASIS.

## ARTICLE III

## Representations and Warranties of IBM

IBM hereby represents and warrants to ACI that:

SECTION 3.01. Organization and Standing. IBM (a) is a corporation duly incorporated, validly existing and in good standing under the laws of the State of New York and (b) has all requisite power and authority to conduct its business as now conducted and as presently contemplated and to perform its

obligations under the Alliance Agreements.

SECTION 3.02. Warrants and Warrant Shares.

(a) The Warrants will be acquired for IBM's own account for investment purposes and not with a view to any offering or distribution within the meaning of the Securities Act and any applicable state securities laws. IBM has no present intention of selling or otherwise disposing of the Warrants or the Warrant Shares in violation of such laws.

(b) IBM has sufficient knowledge and expertise in financial and business matters so as to be capable of evaluating the merits and risks of its investment in ACI. IBM understands that this investment involves a high degree of risk and could result in a substantial or complete loss of its investment. IBM is capable of bearing the economic risks of such investment.

(c) IBM acknowledges that ACI has indicated that the Warrants and the Warrant Shares have not been registered under the Securities Act by reason of their issuance in a transaction exempt from the registration requirements thereof, and that the Warrant Shares will bear a legend stating that such securities have not been registered under the Securities Act and may not be sold or transferred in the absence of such registration or an exemption from such registration.

SECTION 3.03. Authorization. The execution, delivery and performance by IBM of the Alliance Agreements have been duly authorized by all necessary corporate action.



SECTION 3.04. No Conflicts. The execution, delivery and performance by IBM of the Alliance Agreements do not, and the performance of its obligations thereunder and compliance with the terms thereof by IBM will not, conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, any provision of (i) the Certificate of Incorporation of IBM, as in effect on the date hereof (the "IBM Charter") or the By-laws of IBM, as in effect on the date hereof (the "IBM By-laws"), (ii) any contract to which IBM or any of its Subsidiaries is a party or by which any of their respective properties or assets is bound or (iii) any Applicable Law, except, with respect to clause (ii) only, for such of the foregoing that is, individually and in the aggregate, immaterial to IBM and its Subsidiaries, taken as a whole, and that does not, individually or in the aggregate, affect the ability of IBM to timely perform its obligations under the Alliance Agreements.

SECTION 3.05. Execution and Delivery; Enforceability. Each Alliance Agreement has been duly executed and delivered by IBM, and is a legal, valid and binding obligation of IBM, enforceable against IBM in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, moratorium and other laws affecting the rights of creditors generally and general principles of equity.

SECTION 3.06. No Consents. Except for any required filings with any Governmental Authority in connection with the exercise of the Warrants or the ownership of the Warrant Shares, no authorization, consent, approval, license, exemption or other action by, and no registration, qualification, designation, declaration or filing with, any Governmental Authority is or will be necessary (a) in connection with the execution and delivery by IBM of this Agreement and the other Alliance Agreements, the consummation of the transactions contemplated hereby and thereby, or the performance of or compliance with the terms and conditions hereof or thereof, or (b) to ensure the legality, validity and enforceability of any of the Alliance Agreements.

SECTION 3.07. No Litigation. As of the date hereof, there is no litigation or other proceeding pending or, to the knowledge of IBM, threatened against IBM or any of its Affiliates which, if adversely determined, could reasonably be expected to adversely affect the ability of IBM to perform its obligations hereunder or under any of the other Alliance Agreements.

SECTION 3.08. Provision of Assistance. IBM shall provide the IBM Assistance using reasonable care and skill in accordance with the Enablement Assistance Agreement.

SECTION 3.09. General.

(a) The IBM Software and Deliverables furnished by IBM pursuant to the Enablement Assistance Agreement, prior to its use on any system or other medium in connection with the Enablement Assistance Agreement, shall be tested (in accordance with IBM's applicable testing standards) for, and will not, to IBM's knowledge, contain, Harmful Code.



**ACI WORLDWIDE, INC. HAS REQUESTED THAT THE PORTIONS OF THIS DOCUMENT DENOTED BY BOXES AND ASTERISKS BE ACCORDED CONFIDENTIAL TREATMENT PURSUANT TO RULE 24b-2 PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934.**

(b) EXCEPT AS EXPRESSLY SET FORTH IN ANY OF THE ALLIANCE AGREEMENTS, IBM EXPRESSLY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES OF NON-INFRINGEMENT, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. EXCEPT AS EXPRESSLY SET FORTH IN ANY ALLIANCE AGREEMENT, ANY IBM RESOURCES, IBM ASSISTANCE, IBM SOFTWARE AND OTHER ITEMS FURNISHED BY IBM PURSUANT TO THE ENABLEMENT ASSISTANCE AGREEMENT, THE STAFF AUGMENTATION AGREEMENT OR ANY OTHER ALLIANCE AGREEMENT ARE PROVIDED ON AN "AS IS" BASIS.

**ARTICLE IV**

**Covenants**

SECTION 4.01. [_*_]

SECTION 4.02. Notices. Each of ACI and IBM shall furnish to the other Party prompt written notice of the following:

(a) any notice or other communication from any Governmental Authority in connection with the Alliance; and

(b) any commencement of any litigation against ACI or IBM, as the case may be, in respect of the Alliance.

SECTION 4.03. Further Action. From time to time after the date hereof, ACI and IBM agree to execute and deliver, and to cause their respective Subsidiaries to execute and deliver, such other documents, certificates, agreements and other writings and to take such other actions as may be necessary or desirable in order to consummate or implement the transactions contemplated hereby and by the other Alliance Agreements.

SECTION 4.04.

[_*_]

SECTION 4.05.

[_*_]



## ARTICLE V

**Management and Governance**

SECTION 5.01. Alliance Management Teams. Promptly after the date hereof, each of the Parties shall establish an Alliance Management Team (each, an "AMT") responsible for the successful implementation of the Alliance and the facilitation of successful communication between IBM and ACI. One of the dedicated representatives of the AMT of each Party will be designated as that Party's Alliance Executive (the "Alliance Executive") and will (i) be responsible for reaching agreement on targets for sales, marketing, development and services priorities, (ii) be responsible for managing the day-to-day activities of such Party's AMT under this Agreement, (iii) have operational responsibility for the success of the Alliance and (iv) be responsible for managing the requirements of the Alliance across all of ACI's or IBM's business units, as applicable.

SECTION 5.02. Alliance Management Council.

(a) The Parties shall establish an Alliance Management Council (the "AMC") that will be responsible for overseeing all operational aspects of the Alliance. The AMC shall consist of five persons nominated by IBM and five persons nominated by ACI as follows:

(i) the Alliance Executive of such Party;

(ii) an executive of such Party responsible for sales and marketing priorities relating to the Alliance (the "Sales Executive");

(iii) an executive of such Party responsible for development priorities relating to the Alliance (the "Development Executive");

(iv) an executive of such Party responsible for migration priorities relating to the Alliance (the "Migration Executive"); and

(v) an executive of such Party responsible for finance priorities relating to the Alliance (the "Finance Executive").

(b) The AMC shall meet (i) from the date hereof through March 31, 2008, no less than on a weekly basis and on a consistent day and time as the Parties shall agree and (ii) thereafter, as frequently as the Parties shall agree, on dates and at times as the Parties shall agree. Meetings of the AMC shall be held at such location as the Parties shall agree or by telephone conference; provided that, in any case, the AMC shall meet at least once a month in person.

(c) In preparation for the meetings of the AMC contemplated by Section 5.02(b), (i) the Sales Executives of each Party, (ii) the Development Executives of each Party and (iii) the Migration Executives of each Party, shall each meet with each other (x) from the date hereof through March 31, 2008, no less than on a weekly basis and on a consistent day and time as the Parties shall agree and (y) thereafter, as frequently as



the Parties shall agree at such location as the Parties shall agree or by telephone conference.

(d) The presence of at least three AMC members of IBM and at least three AMC members of ACI at a meeting of the AMC shall constitute a quorum.

(e) No action specified in this Section 5.02 may be validly taken by the AMC without the unanimous consent of the members of the AMC at a meeting of the AMC where a quorum has been established in accordance with clause (d) of this Section 5.02.

SECTION 5.03. Senior Alliance Executive.

(a) Each Party will designate a single executive (each, a "Senior Alliance Executive") with responsibility for the overall success of the Alliance. The initial Senior Alliance Executive for each Party shall be as follows:

(i) For IBM: William Zeitler, Senior Vice President and Group Executive, IBM Systems & Technology Group; and

(ii) For ACI: Philip Heasley, Chief Executive Officer.

(b) To ensure the successful start-up, effective ongoing operations and overall achievement of the objectives of the Alliance, the Senior Alliance Executives of each Party will meet (i) from the date hereof through March 31, 2008, no less than on a monthly basis and (ii) thereafter, on a quarterly basis, in each case with each such meeting taking place on a day and at a time as the Parties shall agree. Each Party will be responsible for its own costs associated with such meetings.

## ARTICLE VI

## Other Agreements

SECTION 6.01. Grant of Warrants. Simultaneously herewith, ACI hereby grants to IBM warrants (the "Warrants") to purchase (a) 1,427,035 shares of ACI Common Stock at a price of $27.50 per share and (b) 1,427,035 shares of ACI Common Stock at a price of $33.00 per share. The terms and conditions of the Warrants are set forth in the Warrant Agreements executed simultaneously with this Agreement.

SECTION 6.02. Publicity and Disclosure.

(a) IBM and ACI each agree to issue the joint press release announcing the Alliance in the form attached as Exhibit C-1 hereto on December 17, 2007, and agree that ACI shall include, in its press release on such date, the language set forth on Exhibit C-2 attached hereto.

(b) Except as expressly contemplated by Section 6.02(a), IBM and ACI each agree that (i) no public release or announcement concerning the Alliance shall be



issued or made and (ii) none of the Alliance Agreements or any related documents (including, when signed, the Services Agreement) shall be publicly disclosed or filed, in each case by either Party or any of its Affiliates or any of its representatives, without the prior written consent of the other Party; provided that each of IBM and ACI may make internal announcements to their respective employees and ordinary course investors, customers, business partners and public relations communications, in each case that are consistent with the Parties' prior public disclosures regarding the Alliance; and provided, further, that, subject to the following provisions of this Section 6.02(b), each of IBM and ACI may make such public disclosure as it determines in good faith is required by Applicable Law. In the event that a Party determines in good faith that disclosure or filing of an Alliance Agreement or any related document is required by Applicable Law, such Party shall, prior to any such disclosure or filing (and, other than in the case of any such disclosure or filing with the Commission, if and to the extent that such Party determines that it may do so pursuant to Applicable Law) (i) redact all information of a confidential or competitively sensitive nature, (ii) allow the other Party reasonable time to review such redacted Alliance Agreement or related document, and (iii) make such further redactions as are reasonably proposed by the reviewing Party. In the event that any Governmental Authority, including the Commission, challenges or otherwise disputes any such redactions to the provisions of any Alliance Agreement or any related document, the Parties shall cooperate and use reasonable best efforts to defend and obtain the agreement of such Governmental Authority to such redactions and, in any event, each Party shall (or, in the case of any Governmental Authority other than the Commission, shall use its reasonable best efforts to) provide the other Party with reasonable advance notice of any subsequent disclosure or filing of any such Alliance Agreement or related document containing any previously redacted information.

(c) The Parties shall cooperate with each other in good faith in (x) joint public relations announcements not contemplated by paragraph (b) above that are approved in writing in advance by both Parties and (y) other ongoing joint public relations in respect of the Alliance, as mutually agreed by the Parties.

SECTION 6.03. Facilities. Unless expressly required pursuant to any other Alliance Agreement, or as otherwise agreed by the Parties, the Parties will satisfy their obligations under the Alliance Agreements at their respective facilities.

SECTION 6.04. Logo Licensing.

(a) Each Party hereby grants the other Party a worldwide, non-exclusive, non-transferable, right and license to use the other Party's Logo (the ACI Logo or the IBM Logo, as the case may be), such right and license to expire upon the effective date of the termination of the Base Alliance Agreements in accordance with Article VIII, solely on Marketing Materials and solely on the other Party's Website in strict accordance with the terms of this Section 6.04. Each Party agrees to display and use the other Party's Logo solely in the form, manner and style required by the IBM Logo Usage Guidelines and the ACI Logo Usage Guidelines listed in Annexes A and B, as applicable.



(b) All ownership rights in each Party's Logo belong exclusively to that Party. Neither Party has any ownership rights in the other Party's Logo and shall not acquire any ownership rights in the other Party's Logo as a result of its performance (or breach) of this Section 6.04. All use and goodwill created from such use of the other Party's Logo or variations thereon shall inure solely to the benefit of the owning Party. Upon termination of this Agreement all rights to use the other Party's Logo shall terminate immediately except as otherwise provided herein.

(c) Each Party agrees:

(i) not to take any action which will interfere with any of the other Party's rights in and to the other Party's Logo;

(ii) not to challenge the other Party's right, title or interest in and to its Logo or the benefits therefrom;

(iii) not to make any claim or take any action adverse to the other Party's ownership of its Logo;

(iv) not to register or apply for registrations, anywhere, for the other Party's Logo or any other mark which is similar to the other Party's Logo or which incorporates the other Party's Logo; and

(v) not to use any mark, anywhere, which is confusingly similar to the other Party's Logo.

(d) Each Party agrees that it is of fundamental importance that each Party's Website and Marketing Materials bearing the other Party's Logo be of the highest quality and integrity and that each Party's Logo be properly used and displayed. For that reason, each Party shall present its proposed use of the other Party's Logo, and any significant variations in any previously approved use, on its Website or Marketing Materials to the other Party for approval no less than 20 days prior to its proposed use and shall not make use of the other Party's Logo or any significant variation thereof until such approval is received in writing from the other Party. Failure to meet the quality standards set forth in this Section 6.04(d) shall be deemed to be a breach hereof for which this Agreement may be terminated by the Terminating Party in accordance with Section 8.02 (including the provisions thereof with respect to notice, cure and remedy).

(e) Each Party agrees to notify the other Party within ten Business Days if it becomes aware of:

(i) any uses of, or any application or registration for, a trademark, service mark or trade name that conflicts with or is confusingly similar to the other Party's Logo;

(ii) any acts of infringement or unfair competition involving the other Party's Logo; or



(iii) any allegations or claims whether or not made in a lawsuit, that the use of either Logo by either Party infringes the trademark or service mark or other rights of any other entity.

(f) Each Party may, but shall not be required to, take whatever action it, in its sole discretion, deems necessary or desirable to protect the validity and strength of its Logo at its sole expense. Each Party agrees to comply with all reasonable requests from the other Party for assistance in connection with any action with respect to the other Party's Logo that the other Party may choose to take. Neither Party shall institute or settle any claims or litigation affecting any rights in and to the other Party's Logo without the other Party's prior written approval.

(g) Neither Party may, either directly or indirectly, sublicense, assign or in any way encumber the license granted pursuant to clause (a) of this Section 6.04. Any attempt to do so shall (i) be void and of no effect, (ii) be deemed to be a breach hereof for which this Agreement may be terminated by the Terminating Party in accordance with Section 8.02 (including the provisions thereof with respect to notice, cure and remedy) and (iii) result in the termination of the license granted pursuant to clause (a) of this Section 6.04 effective immediately upon receipt of a notice so stating.

SECTION 6.05. Pricing. Each Party will be responsible for establishing its respective end user customer pricing and terms of sale independently for its own products.

SECTION 6.06. Termination of Existing Agreements. Each of ACI and IBM hereby terminate (a) the Existing Alliance Agreement, (b) the Existing Sales Incentive Agreement and (c) the Confidentiality Agreement, and the Parties agree that each of the Existing Alliance Agreement, the Existing Sales Incentive Agreement and the Confidentiality Agreement cease to be of any further force or effect. In connection with the foregoing, IBM and ACI each hereby irrevocably waive the obligations of the other Party pursuant to (i) in the case of the Existing Alliance Agreement, Section 1.4 thereof, (ii) in the case of the Existing Sales Incentive Agreement, Section 11 thereof, and (iii) in the case of the Confidentiality Agreement, the fifth paragraph of Section 7 thereof, in each case with respect to the procedure for the termination by the Parties of such agreements.

SECTION 6.07. Services Agreement.

(a) Each Party agrees to negotiate in good faith, until the earlier of (x) the date on which a definitive agreement with respect thereto is entered into by the Parties and (y) March 31, 2008, a Services Agreement based on the terms set forth in Exhibit D hereto.

(b) The Parties agree that, in connection with the negotiation of the Services Agreement, IBM intends to conduct a detailed due diligence review of ACI's operations. Such due diligence process shall include the review of technical details, procurement, financial projections and other relevant topics as the Parties may mutually



agree. ACI agrees to provide representatives of IBM with access, during normal business hours and upon reasonable notice, to ACI's internal information technology operations, contracts and financial statements, and shall make appropriate representatives of ACI available for the discussion of matters regarding such operations and the related outsourcing. IBM agrees to respond to ACI's reasonable inquiries regarding IBM's outsourcing operations and to provide to ACI relevant supporting information regarding the services to be provided under the Services Agreement.

(c) Notwithstanding the foregoing, neither Party shall have any obligation with respect to the proposed outsourcing unless and until the Parties have entered into a definitive agreement with respect to such services.

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SECTION 6.08. Payments.

(a) IBM agrees to pay, in the following installments and, in the case of clauses (ii) and (iii) below, upon the achievement of the following milestones, up to $[_*_] to ACI as follows:

(i) $33,333,334.00 following the execution by both Parties of the Alliance Agreements on the date hereof in consideration for the Warrants (the "Initial Payment") to be paid as soon as practicable on December 17, 2007;

(ii)

[_*_]

(iii)

[_*_]

(b)

[_*_]

SECTION 6.09. Transition Obligations.

(a) In the event of any termination of the Base Alliance Agreements in accordance with Article VIII, the AMC and the Senior Alliance Executives will discuss the respective obligations of the Parties in connection with any customer engagements existing on the effective date of such termination, including (a) the commitments of the Parties to cooperate with each other in the performance of such obligations and (b) the respective services to be provided by the Parties in connection with such customer engagements of the nature, for a period of time and on terms and conditions that are agreed upon by the AMC and the Senior Alliance Executives; provided that, in any event, the respective commitments of each Party to perform such obligations shall not be for a period of less than six months, unless otherwise agreed upon by the AMC and the Senior Alliance Executives.

(b) For a period of one year following the date that the termination of the Base Alliance Agreements in accordance with Article VIII is effective, IBM shall continue to pay Incentives as contemplated by Section 1(a)(iii) of Attachment A to the Sales and Marketing Agreement.

SECTION 6.10. Intellectual Property. Additional or conflicting intellectual property terms, including commercial terms, set forth in any Enablement Project Attachment, Transaction Document or other similar document agreed upon by the Parties



concerning a specific engagement, work or project shall take precedence over the intellectual property terms in this Section 6.10.

(a) ACI shall retain all rights in and to its pre-existing intellectual property. Except as expressly set forth in any Alliance Agreement, no right, title or license in or to the pre-existing ACI intellectual property is granted to IBM. IBM shall retain all rights in and to its pre-existing intellectual property. Except as expressly set forth in any Alliance Agreement, no right, title or license in or to pre-existing IBM intellectual property is granted to ACI.

(b) Except as provided in paragraphs (d) and (e) below, each Party shall own its Sole Inventions and hereby grants the other Party a worldwide, perpetual, irrevocable, nonexclusive, nontransferable, royalty-free, fully paid-up license under such Sole Inventions and Patents issuing under such Sole Inventions to (i) use, have used, make, have made, lease, sell, offer for sale, import, and otherwise transfer or license any product, (ii) provide any service and (iii) practice and have practiced any method or process and, in each case, to permit others to do any of the foregoing on behalf of the licensed party.

(c) Except as provided in paragraphs (d) and (e) below, each Joint Invention will be jointly owned and each Party will have the right to license such Joint Invention to third parties without consent from or accounting to the other Party. The parties shall cooperate and mutually agree upon all matters regarding registration, maintenance, enforcement and defense of the Joint Inventions, excluding Joint Inventions applicable to CELL Technology (as defined in the Enablement Assistance Agreement), with respect to which IBM shall make all such decisions and take all such actions.

(d) No license is granted to IBM with respect to ACI's Sole Inventions that are uniquely applicable to, or the primary basis of which, is ACI Software.

(e) Sole Inventions or Joint Inventions that are applicable to CELL Technology will be solely owned by IBM and IBM hereby grants to ACI a worldwide, perpetual, irrevocable, nonexclusive, nontransferable, royalty-free, fully paid-up license under such Sole Inventions and Joint Inventions

and Patents issuing thereunder to (i) use, have used, make, have made, lease, sell, offer for sale, import and otherwise transfer or license CELL Technology in conjunction with the Optimized Product, (ii) provide any service related to CELL Technology and the ACI Optimized Software and (iii) practice and have practiced any method or process related to CELL Technology in conjunction with ACI Optimized Software.

(f) When IBM develops and provides Materials to ACI under the Staff Augmentation Agreement, ACI shall own such Materials and hereby grants to IBM a nonexclusive, worldwide, royalty-free license to use, execute, display, perform and distribute (within its enterprise only) copies of such Materials solely for purposes of performing tasks under a Base Alliance Agreement; provided however, that where the Materials are indicated in a Transaction Document or Attachment to be "Other Deliverable Materials", IBM will own the "Other



Deliverable" Materials and hereby grants to ACI an irrevocable, nonexclusive, worldwide, royalty-free, paid-up license to use, execute, reproduce, display, perform, distribute (within its enterprise only) and prepare derivative works based thereon.

(i) When one Party (the "Subcontractor") develops and provides Materials under a Subcontracting Agreement to the other Party (the "Prime Contractor") or to the customer as specified in a Transaction Document, the Prime Contractor (or, if requested by the Prime Contractor, the Customer) shall own such Materials and hereby grants to the Subcontractor a nonexclusive, worldwide, royalty-free, paid-up license to use, execute, display, perform and distribute (within its enterprise only) copies of such Materials solely for purposes of performing tasks under a Base Alliance Agreement, provided however, that:

(A) where the Subcontractor is ACI and the Prime Contractor is IBM, ACI (or the customer, if requested by IBM, on behalf of the customer) shall own such Materials and hereby grants or authorizes the customer to grant, to ACI and IBM a nonexclusive, worldwide, perpetual, irrevocable, royalty-free, paid-up license to use, execute, display, modify, copy, perform, sublicense and distribute internally, or externally solely to the customer specified in the Transaction Document, copies of such Materials, and

(B) where the Materials are indicated in a Transaction Document or Attachment to be "Other Deliverable Materials", the Subcontractor will own the "Other Deliverable" Materials and hereby grants the Prime Contractor an irrevocable, nonexclusive, worldwide, royalty-free, paid-up license to use, execute, reproduce, display, perform, distribute (within its enterprise only) and prepare derivative works based thereon.

(ii) Materials that are created by either Party pursuant to Attachment D to the Sales and Marketing Agreement (and not pursuant to the Staff Augmentation Agreement or the Subcontracting Agreements) will be owned by the Party that creates such Materials and each Party hereby grants the other Party a nonexclusive, worldwide, royalty-free license to use, execute, display, perform and distribute (within its enterprise only) copies of such Materials solely for purposes of performing tasks under Attachment D to the Sales and Marketing Agreement for customer engagements.

(g) To the extent required in connection with performance of the Parties' obligations under the Alliance Agreements, the Parties grant the following demonstration licenses, testing licenses and other licenses between the Parties:

(i) In connection with the Sales and Marketing Agreement, for the term of the Base Alliance Agreements, each Party hereby grants the other a nonexclusive, worldwide, fully paid up, royalty-free, nontransferable, right and license to use, execute, reproduce, perform, display, link, translate into any language or form and copy (A) the



Combined Solution in object code form only, or any portion thereof, and (B) Marketing Materials (as defined in the Sales and Marketing Agreement), solely for the purpose of and to the extent necessary for marketing, demonstrating, and promoting the Combined Solution internally and externally in connection with performing the sales and marketing activities under the Sales and Marketing Agreement; and

(ii) in connection with the Enablement Assistance Agreement and Attachment D to the Sales and Marketing Agreement, ACI hereby grants to IBM an irrevocable, worldwide, fully paid up, royalty-free, non-exclusive, non-transferable license to use, execute, copy, reproduce, configure, interface to display, perform, link (as a step to building executable code), compile, translate into any language or form, combine with other software or hardware, transfer (internally only) and transmit (internally only) the Optimized Products in source code (but only to the extent that ACI has provided such source code to its customers) and object code form solely for the purpose of and to the extent necessary (A) for IBM to internally install the Optimized Product on IBM systems for the purpose of benchmarking, tuning and testing, to perform trouble-shooting and problem determination, and developing and deploying system integration capabilities, tools, scripts, programs, and middleware configurations for the Optimized Product, (B) to test and distribute within a customer's enterprise, subject to the customer's license from ACI, (C) to provide support of customers concerning their Combined Solution and (D) otherwise as reasonably required for IBM to perform activities described in the Sales and Marketing Agreement.

(h) Except as provided above, neither Party grants any other licenses pursuant to, but shall negotiate in good faith concerning further licenses that may be required to perform the activities under, the Alliance Agreements.

(i) Either Party may disclose, publish, disseminate and use the ideas, concepts, know-how and techniques, related to the other Party's business activities, which are contained in the intellectual property of the other Party and retained in the unaided memories of the employees who have access to such intellectual property pursuant to this Section 6.10 ("Residual Ideas"); provided that nothing contained in this Section 6.10 gives the Party with such Residual Ideas the right to disclose, publish or disseminate, except as set forth elsewhere in this Section 6.10, the source of such Residual Ideas.

(j) ACI acknowledges that IBM is in the business of providing consulting services and developing computer software for a wide variety of clients and ACI understands that IBM will continue these activities. IBM acknowledges that ACI is in the business of developing electronic payment software applications and IBM understands that ACI will continue these activities. Accordingly, nothing in this Section 6.10 will preclude or limit IBM from providing consulting services or developing software or materials for itself or other entities, or ACI from developing electronic payment software

applications, irrespective of the possible similarity to materials which might be delivered to or received from the other Party, including screen formats, structure, sequence and organization. Notwithstanding the foregoing, nothing in this paragraph shall be deemed to diminish either Party's obligations with respect to



Confidential Information set forth in Article IX hereof or expand the scope of any license rights set forth in this Section 6.10.

**ARTICLE VII**

**Delivery**

SECTION 7.01. Delivery. On the date hereof:

(a) IBM shall deliver to ACI:

(i) counterparts of each Alliance Agreement executed by duly authorized representatives of IBM; and

(ii) the Initial Payment, in immediately available funds, wired to a bank account that has been designated by ACI not later than three Business Days prior to the date hereof, such Initial Payment to be subject to Section 6.08(b).

(b) ACI shall deliver to IBM:

(i) counterparts of each Alliance Agreement executed by duly authorized representatives of ACI; and

(ii) ACI shall deliver to IBM an executed receipt in the form of Exhibit E hereto evidencing receipt by ACI of the Initial Payment.

**ARTICLE VIII**

**Term and Termination**

SECTION 8.01. Term. The Base Alliance Agreements shall commence and become effective on the date hereof and, subject to Section 8.02, shall terminate on the fifth anniversary of the date hereof in the event that either Party provides a Termination Notice (an "Initial Termination Notice") to the other Party on or prior to the fourth anniversary of the date hereof of its termination of the Base Alliance Agreements. Any such Initial Termination Notice shall terminate the Base Alliance Agreements effective as of the fifth anniversary of the date hereof. If neither Party timely provides the other Party with an Initial Termination Notice, the Base Alliance Agreements shall continue to be effective until the date that is at least two years from the date that either Party provides a Termination Notice to the other Party, subject to Section 8.02; provided that, in any event, if not earlier terminated pursuant to this Article VIII, the Base Alliance Agreements shall terminate, with or without notice by either Party, on the tenth anniversary of the date hereof.

SECTION 8.02. Termination. Notwithstanding anything in Section 8.01 to the contrary, but subject to Section 8.04,



(a) IBM shall be entitled to terminate all of the Base Alliance Agreements at any time upon delivery to ACI of a Termination Notice in the event that a Change in Control occurs, which termination shall be effective upon such delivery; provided that IBM may only deliver a Termination Notice pursuant to this Section 8.02(a) (i) within 60 days after the occurrence of a Change in Control and (ii) after each of the AMC and the Senior Alliance Executives have engaged in discussions with respect to the impact of such Change in Control on the Alliance (unless ACI's AMC members or Senior Alliance Executive are unwilling or consistently unavailable to engage in such discussions); and

(b) either Party (the "Terminating Party") shall be entitled to terminate all of the Base Alliance Agreements at any time upon delivery to the other Party (the "Defaulting Party") of a Termination Notice, which termination shall be effective upon such delivery, in the event that:

(i) the Defaulting Party is in material breach of any provision of this Agreement or any other Alliance Agreement and the nature of such breach is such that it is not capable of being remedied or, if such breach is capable of being remedied, the Defaulting Party fails to remedy such breach to the reasonable satisfaction of the Terminating Party within an amount of time designated by the Terminating Party in a written notice from the Terminating Party specifying the breach and requesting remedy of such breach within a reasonably designated amount of time (but in no event fewer than 60 days, unless mutually agreed otherwise) that, in the good faith opinion of the Terminating Party, is reasonable on the basis and in the context of the nature of such breach;

(ii) the Defaulting Party consistently breaches this Agreement or any other Alliance Agreement to an extent which in the aggregate amounts to a material breach that is unable to be remedied; or

(iii) Bankruptcy occurs in respect of the Defaulting Party;

provided that a Terminating Party may only provide a notice of breach or a Termination Notice pursuant to clause (i) or (ii) of this Section 8.02(b) after each of the AMC and the Senior Alliance Executives have engaged in discussions with respect to any such material breach (unless the Defaulting Party's AMC members or Senior Alliance Executive are unwilling or consistently unavailable to engage in such discussions).

SECTION 8.03. Termination Notice. Any notice of termination (a "Termination Notice") shall specify the following in reasonable detail:

(a) the terminating Party's basis for such termination;

(b) the effective date of termination; and



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(c)

[_*_]

SECTION 8.04. Effect of Termination. At the time that termination of the Base Alliance Agreements in accordance with Section 8.01 or Section 8.02 is effective, (x) except as expressly provided below or in any Base Alliance Agreement, all of the obligations of the Parties under the Base Alliance Agreements shall terminate and cease to be of further force or effect and (y) [_*_]. Any such termination shall not release either Party from any liability that has already accrued as of the effective date of such termination and shall not constitute a waiver or release of, or otherwise be deemed to prejudice or adversely affect, any rights, remedies or claims which a Party may have hereunder, at law, equity or otherwise or which may arise out of or in connection with such termination. In addition, the following provisions shall survive the termination of the Base Alliance Agreements and remain in full force and effect in accordance with their terms:

(i) Article II (Representations and Warranties of ACI);

(ii) Article III (Representations and Warranties of IBM);

(iii) Section 6.02 (relating to publicity and disclosure);

(iv) [_*_]

(v) Section 6.09 (relating to transition obligations);

(vi) Section 6.10 (relating to intellectual property)

(vii) this Article VIII;

(viii) Article IX (Confidentiality);

(ix) Article X (Indemnification and Limitation on Liability);

(x) Article XI (Dispute Resolution);

(xi) Article XII (Miscellaneous); and

(xii) each provision of each other Base Alliance Agreement that, by the express terms of such Base Alliance Agreement, survives the termination of the Base Alliance Agreements.



## ARTICLE IX

## Confidentiality

SECTION 9.01. Confidential Information. IBM and ACI agree that (a) information disclosed by the disclosing Party (the "Disclosing Party") to the other Party (the "Receiving Party"), both prior to and after the date hereof, in connection with the Alliance includes technical, marketing, financial, commercial and other proprietary information and is disclosed for the sole purpose of successfully effecting the Alliance and (b) the mutual objective of the Parties pursuant to this Article IX is to provide appropriate protection of such Confidential Information while maintaining the ability of the Parties to conduct their respective business activities. Any such technical, marketing, financial, commercial and other proprietary information disclosed by a Disclosing Party shall be deemed to be confidential information if it is disclosed (i) in writing and marked "confidential" at the time of such disclosure by the Disclosing Party, or (ii) by oral and/or visual presentation and either designated in advance as "confidential" by the Disclosing Party or readily apparent as confidential disclosure (any such information, "Confidential Information").

SECTION 9.02. Confidentiality Obligations.

(a) The Receiving Party agrees to use the same care and discretion to avoid disclosure, publication or dissemination of the Disclosing Party's Confidential Information as it uses with its own similar information that it does not wish to disclose, publish or disseminate; provided that the inherent disclosure of ideas, concepts, know-how or techniques contained in the Disclosing Party's Confidential Information by the Receiving Party in the use, distribution or marketing of any product or service in connection with activities performed under the Enablement Assistance Agreement shall not be

deemed to be in violation of the Receiving Party's obligations under this Section 9.02(a). Notwithstanding anything to the contrary in any Alliance Agreement, the Receiving Party may use the Disclosing Party's Confidential Information solely in connection with activities contemplated by the Alliance. The Receiving Party may disclose the Disclosing Party's Confidential Information to the following parties:

(i) its employees and employees of its Subsidiaries who have a need to know;

(ii) any other party with the Disclosing Party's prior written consent; and

(iii) where IBM is the Receiving Party, IBM may disclose ACI's Confidential Information to IBM's Business Partners and, where ACI is the Receiving Party, ACI may disclose IBM's Confidential Information to ACI's authorized distributors, in each case solely with respect to activities performed under the Alliance Agreements;



provided that, prior to any such disclosure pursuant to clause (iii) above, the Receiving Party must have a written agreement in a customary form with such party sufficient to require that party to treat such Confidential Information in accordance with this Article IX.

(b) The Receiving Party may disclose the Disclosing Party's Confidential Information as required by Applicable Law; provided that (i) if reasonably practicable, the Receiving Party gives the Disclosing Party reasonable notice and opportunity to seek an appropriate protective order or waive compliance with this Article IX and (ii) such Receiving Party shall comply with the provisions under Section 6.02(b), if applicable. If the Disclosing Party waives compliance with this Article IX in accordance with clause (i) of this Section 9.02(b), or after a reasonable amount of time has elapsed from the Receiving Party's notice, a protective order has not been entered (and, if applicable, the Parties have complied with Section 6.02(b)), the Receiving Party may disclose that portion of such Confidential Information which its in-house or outside counsel advises that it is compelled to disclose.

(c) Non-public information of ACI may also be considered material to ACI for purposes of Federal and state securities laws and Commission rules and regulations. IBM acknowledges that it is aware of the United States securities laws regarding the possession of material non-public information concerning a company whose shares are publicly traded on an exchange.

(d) (i) ACI acknowledges that IBM is in the business of providing consulting services and developing computer software for a wide variety of clients and ACI understands that IBM will continue these activities and (ii) IBM acknowledges that ACI is in the business of developing electronic payment software applications and IBM understands that ACI will continue these activities. Accordingly, nothing in this Article IX shall preclude or limit IBM from providing consulting services and/or developing software or materials for itself or other entities, or ACI from developing electronic payment software applications, irrespective of the possible similarity to materials which might be delivered to or received from the other Party, including screen formats, structure, sequence and organization.

(e) The Receiving Party shall, upon written request by the Disclosing Party, at any time, instruct its personnel that have been granted access to Confidential Information to promptly destroy any Confidential Information in their possession; provided that the Receiving Party shall be permitted to retain a copy of such Confidential Information solely for archival purposes. Notwithstanding the destruction of Confidential Information, or the failure to so destroy Confidential Information, the Parties shall continue to be bound, for any remaining term hereunder, by the rights and obligations of confidentiality hereunder.

(f) Notwithstanding anything to the contrary in this Article IX, in the event of any breach or threatened breach of any of the provisions of this Article IX, the aggrieved Party, in addition to any other remedies it may have at law or in equity, is entitled to seek injunctive relief.



SECTION 9.03. Confidentiality Period. Confidential Information disclosed pursuant to this Article IX will be subject to the terms of this Article IX for three years from the initial date of disclosure of such Confidential Information. In addition, at the request of a Party on a case-by-case basis, prior to the disclosure of any particular Confidential Information, the Parties shall discuss whether a longer confidentiality period is appropriate with respect to such Confidential Information.

SECTION 9.04. Exceptions to Confidentiality Obligations. Notwithstanding any provision of this Article IX, the Receiving Party may disclose, publish, disseminate and use Confidential Information that is:

(a) already in its possession without obligation of confidentiality;

(b) developed independently;

(c) obtained from a source other than the Disclosing Party without obligation of confidentiality;

(d) publicly available when received, or thereafter becomes publicly available through no fault of the Receiving Party; or

(e) disclosed by the Disclosing Party to another party without obligation of confidentiality.

SECTION 9.05. Residual Information. The Receiving Party may disclose, publish, disseminate and use the ideas, concepts, know-how and techniques, related to the Receiving Party's business activities, which are contained in the Confidential Information disclosed by the Disclosing Party and retained in the unaided memories of the Receiving Party's employees who have access to such Confidential Information pursuant to this Article IX (such Confidential Information, "Residual Information"); provided that nothing contained in this Section 9.05 gives the Receiving Party the right to disclose, publish or disseminate, except as set forth elsewhere in this Article IX:

(a) the source of Residual Information;

(b) any financial, statistical or personnel data of the Disclosing Party; or

(c) the business plans of the Disclosing Party.

SECTION 9.06. Disclaimers.

(a) All Confidential Information disclosed by the Disclosing Party is provided solely on an "as is" basis.

(b) The Disclosing Party shall not be liable for any damages arising out of the use of Confidential Information disclosed pursuant to this Article IX.



(c) Neither this Article IX, nor any disclosure of Confidential Information, grants the Receiving Party any right or license under any trademark, copyright or patent now or hereafter owned or controlled by the Disclosing Party.

(d) Disclosure of Confidential Information containing business plans is for planning purposes only. The Disclosing Party may change or cancel its plans at any time. Use of such Confidential Information is at the Receiving Party's own risk.

(e) Nothing in this Article IX requires either Party to disclose or to receive Confidential Information.

(f) The receipt of Confidential Information pursuant to this Article IX will not preclude, or in any way limit, the Receiving Party from:

(i) providing to others products or services which may be competitive with products or services of the Disclosing Party;

(ii) providing products or services to others who compete with the Disclosing Party; or

(iii) assigning its employees in any way it may choose.

## ARTICLE X

## Indemnification and Limitation on Liability

SECTION 10.01. Indemnification. If a third party claims that any product, service, material or deliverable provided by a Party (the "Indemnifying Party") to any customer or to the other Party (the "Indemnified Party"), infringes such third party's patent, trademark or copyright, the Indemnifying Party will defend the Indemnified Party against that claim at the Indemnifying Party's expense, and shall pay all costs, damages and attorney's fees that a court finally awards or that are included in a settlement approved by the Indemnifying Party; provided that the Indemnified Party:

(a) promptly notifies the Indemnifying Party in writing of the claim; and

(b) allows the Indemnifying Party to control, and reasonably cooperates with the Indemnified Party in, the defense and any related settlement negotiations.

Notwithstanding the foregoing, the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its indemnification obligation set forth above except to the extent that such failure results in a lack of actual notice to the Indemnifying Party and such Indemnifying Party is actually prejudiced as a result of such failure to give notice.

SECTION 10.02. Remedies. If a claim of the nature set forth in Section 10.01 is made or appears likely to be made, the Indemnified Party agrees to permit the Indemnifying Party to enable the Indemnified Party to continue to use the product,



service, material or deliverable provided by the Indemnifying Party, or to modify them, or replace them with such products, services, materials or deliverables, as the case may be, that are at least functionally equivalent. If the Indemnifying Party determines that none of these alternatives is reasonably available, the Indemnified Party agrees to return the product, service, material or deliverable that is the subject to such claim, to the Indemnifying Party on the Indemnifying Party's written request. The Indemnifying Party will then give the Indemnified Party a credit equal to the amount that the Indemnified Party paid to the Indemnifying Party for the creation of such product, service, material or deliverable.

SECTION 10.03. Claims for which the Parties are not Responsible. Notwithstanding Section 10.01:

(a) IBM shall not have any obligation to ACI regarding any claim based on any of the following:

(i) anything provided by ACI or a third party on ACI's behalf that is incorporated into such product, service, material or deliverable or IBM's compliance with any designs, specifications or instructions provided by ACI or a third party on ACI's behalf;

(ii) the modification of such product, service, material or deliverable by ACI or a third party on ACI's behalf;

(iii) the combination, operation or use of such product, service, material or deliverable with any product, data, apparatus, method or process that IBM did not provide as a system, if the infringement would not have occurred were it not for such combination, operation or use; and

(iv) the distribution, operation or use of such product, service, material or deliverable outside of ACI and its Affiliates.

(b) ACI shall not have any obligation to IBM regarding any claim based on any of the following:

(i) anything provided by IBM or a third party on IBM's behalf that is incorporated into such product, service, material or deliverable or ACI's compliance with any designs, specifications or instructions provided by IBM or a third party on IBM's behalf;

(ii) the modification of such product, service, material or deliverable by IBM or a third party on IBM's behalf;

(iii) the combination, operation or use of such product, service, material or deliverable with any product, data, apparatus, method or process that ACI did not provide as a system, if the infringement would not have occurred were it not for such combination, operation or use; and



**ACI WORLDWIDE, INC. HAS REQUESTED THAT THE PORTIONS OF THIS DOCUMENT DENOTED BY BOXES AND ASTERISKS BE ACCORDED CONFIDENTIAL TREATMENT PURSUANT TO RULE 24b-2 PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934.**

(iv) the distribution, operation or use of such product, service, material or deliverable outside of IBM and its Affiliates.

SECTION 10.04. Limitation on Liability.

(a) Neither Party shall be liable to the other Party for any consequential damages (including lost profits, business, revenue, goodwill or anticipated savings and loss of or damage to data and records), special damages, incidental damages, indirect damages or punitive damages under this Agreement or under any other Alliance Agreement, even if advised that any of these types of damages may occur; provided that the limitations set forth this Section 10.04(a) shall not apply to (i) any such damages that may be awarded pursuant to a third party's claim contemplated by Section 10.01 or (ii) any breach of a Party's obligations set forth in Article IX or Section 10 of the Enablement Assistance Agreement; and provided, further, that the limitations set forth in this Section 10.04(a) with respect to consequential damages and indirect damages shall not apply to any claim for willful infringement of intellectual property rights.

(b) Each Party's entire liability for all claims in the aggregate arising from or related to any Alliance Agreement will in no event exceed:

(i) payments referred to in Section 10.01;

(ii) payments [_*_] expressly required to be made to the other Party pursuant to the Alliance Agreements;

(iii) damages for bodily injury (including death), and damage to real property and tangible personal property for which a Party is legally liable;

(iv) damages for infringement by one Party of the other Party's intellectual property rights; and

(v) the amount of any other actual direct damages in an aggregate amount not to exceed $[_*_]; provided that no such limitation shall be applied to actual direct damages awarded to a Party as a result of the other Party's breach of its obligations set forth in Article IX of this Agreement or Section 10 of the Enablement Assistance Agreement.

(c) The limits set forth in this Section 10.04 also apply to each Party's subcontractors. It is the maximum for which such Party and its subcontractors are collectively responsible.

(d) The provisions of this Section 10.04 apply to all liabilities, claims and causes of action, regardless of the basis on which a Party is entitled to claim damages from the other Party (including fundamental breach, failure of essential



purpose, negligence or other contract or tort claim), other than for willful misconduct or willful misrepresentation.

SECTION 10.05. General. This Article X states each Party's entire obligation and each Party's exclusive remedy regarding any claim of infringement.

## ARTICLE XI

### Dispute Resolution.

SECTION 11.01. Intention of the Parties. The Parties intend that all disputes between the Parties arising out of this Agreement or any other Alliance Agreement shall be settled by the Parties amicably through good faith discussions upon the written request of either Party.

SECTION 11.02. Procedures

(a) Prior to filing suit, instituting a Proceeding or seeking other judicial or governmental resolution in connection with any dispute between the Parties or any of their Subsidiaries arising out of any of the Alliance Agreements or any aspect of the Alliance, the Parties will attempt to resolve such dispute through good faith negotiations. If a dispute arises in respect of a matter relating to a specific Alliance Agreement, the Parties shall first exercise the dispute resolutions procedures, if any, set forth in such Alliance Agreement. If the Parties do not resolve the dispute after exhausting the dispute resolutions procedures, if any, set forth in such Alliance Agreement, or if no dispute resolution procedures are provided in the applicable Alliance Agreement, the Parties shall utilize the dispute resolution procedures set forth in this Section 11.02, as follows:

(i) Either Party shall send a written notice to the other Party requesting negotiations to continue resolving, or initially attempt to resolve, as the case may be (depending upon whether dispute resolution procedures are provided in the applicable Alliance Agreement), the dispute in accordance with the procedures set forth in this Section 11.02. Promptly following receipt of such notice by the other Party, each Party shall cause its Alliance Executive together with, if necessary, an individual designated by it as having general responsibility for the affected Alliance Agreement to meet in person with the corresponding individuals designated by the other Party to discuss the dispute; and

(ii) If the dispute is not resolved within 60 days (or such shorter time as the Parties agree is necessary to attempt to resolve the dispute in order to satisfy the Parties' client service obligations that may be the subject of such dispute) after the first meeting between such individuals described in clause (i) of this Section 11.02(a), then, upon the written request of either Party, each Party shall cause its Senior Alliance Executive and its Alliance Executive (together with, if necessary, an individual designated by it as having general responsibility for the affected Alliance Agreement) to



meet in person with the Senior Alliance Executive, Alliance Executive and the individual or individuals so designated by the other Party to discuss the dispute.

Except and only to the limited extent provided in Section 11.02(b), neither Party shall file suit, institute a Proceeding or seek other judicial or governmental resolution of the dispute until at least 60 days after the first meeting between the corporate officers described in clause (ii) of this Section 11.02(a).

(b) Notwithstanding the provisions of Section 11.02(a), either Party may institute a Proceeding seeking a preliminary injunction, temporary restraining order or other equitable relief (excluding rescission, economic damages or other forms of non-injunctive relief), if necessary in the good faith opinion of that Party to avoid material harm to its property, rights or other interests, before commencing, or at any time during the course of, the dispute procedure described in Section 11.02(a). In addition, either Party may file an action prior to the commencement of or at any time during or after the dispute resolution procedures in Section 11.02(a), if in the good faith opinion of that Party it is necessary to prevent the expiration of a statute of limitations or filing period or the loss of any other substantive or procedural right.

(c) ACI irrevocably submits, and agrees to cause its Affiliates to irrevocably submit, and IBM irrevocably submits, and agrees to cause its Affiliates to irrevocably submit, to the exclusive jurisdiction of the state and Federal courts located in the State of New York, New York County, for the purposes of any suit, action or other proceeding arising out of the Alliance Agreements or any aspect of the Alliance (and each Party agrees that no such action, suit or proceeding relating to the Alliance Agreements or any aspect of the Alliance shall be brought by it or any of its Affiliates except in such courts). ACI irrevocably and unconditionally waives (and agrees not to plead or claim), and IBM irrevocably and unconditionally waives (and agrees not to plead or claim), any objection to the laying of venue of any action, suit or proceeding arising out of the Alliance Agreements or any aspect of the Alliance in such courts or that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

(d) ACI and IBM further agree that service of any process, summons, notice or document by U.S. registered mail to such Party's respective address set forth in Section 12.14 shall be effective service of process for any action, suit or proceeding in the state and Federal courts located in the State of New York, New York County, with respect to any matters to which it has submitted to jurisdiction as set forth above in Section 11.02(c).

(e) EACH PARTY HEREBY WAIVES, AND AGREES TO CAUSE EACH OF ITS RESPECTIVE AFFILIATES TO WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH ANY OF THE ALLIANCE AGREEMENTS OR ANY ASPECT OF THE ALLIANCE. Each Party (i) certifies that no representative of any other Party has represented, expressly or



otherwise, that such other Party would not, in the event of litigation, seek to enforce the foregoing waiver and (ii) acknowledges that it and the other parties thereto have been induced to enter into the Alliance Agreements by, among other things, the mutual waivers and certifications in this Section 11.02.

## ARTICLE XII

### Miscellaneous

SECTION 12.01. Severability. If any provisions of this Agreement or any of the other Alliance Agreements shall be held to be illegal, invalid or unenforceable, the Parties agree that such provisions will be enforced to the maximum extent permissible so as to effect the intent of the Parties, and the validity, legality and enforceability of the remaining provisions of this Agreement or any of the other Alliance Agreements shall not in any way be affected or impaired thereby. If necessary to effect the intent of the Parties, the Parties will negotiate in good faith to amend this Agreement or any of the Alliance Agreements to replace the unenforceable language with enforceable language which as closely as possible reflects such intent.

SECTION 12.02. Amendments. This Agreement and each other Base Alliance Agreement may be amended or modified only by a written instrument signed by each Party.

SECTION 12.03. Waiver. Any waiver by a Party of an instance of the other Party's noncompliance with any obligation or responsibility herein contained or contained in another Alliance Agreement shall be in writing and signed by the waiving Party and shall not be deemed a waiver of other instances of the other Party's noncompliance hereunder.

SECTION 12.04. No Assignment. This Agreement and the other Alliance Agreements shall be binding upon and inure to the benefit of and be enforceable by the respective successors and permitted assigns of the Parties. Nothing in this Agreement or the other Alliance Agreements shall confer any rights upon any Person other than the Parties and their respective successors and permitted assigns (provided that in no event shall this provision affect either Party's obligations pursuant to Article X). Neither Party may assign this Agreement or any other Alliance Agreement or its rights hereunder or thereunder to any Person without the written consent of the other Party; provided that it shall not be considered an assignment by IBM in the event that IBM divests a portion of its business in a manner that similarly affects all of its customers. Any attempted assignment of this Agreement or the other Alliance Agreements in violation of this Section 12.04 shall be void and of no effect; provided that (a) either Party may assign any of its obligations under the Base Alliance Agreements to any of its wholly owned Subsidiaries and (b) either Party may delegate or subcontract its duties under any Base Alliance Agreement to any other Person. Notwithstanding the foregoing, IBM shall be permitted to transfer the Warrants and the Warrant Shares in accordance with Section 6 of each of the Warrant Agreements, and such transferees shall be entitled to the benefits under such Warrant Agreements.



SECTION 12.05. Expenses. Except as otherwise expressly provided herein or in any other Alliance Agreement, each Party shall bear all out-of-pocket costs and expenses incurred by it in connection with the Alliance, including:

(a) all attorneys', accountants', investment advisors' and consultants' fees and expenses; and

(b) all taxes (including withholding or payment of all applicable Federal, state and local income taxes, social security taxes and other payroll taxes with respect to its employees, as well as any taxes, contributions or other obligations imposed by applicable state unemployment or workers' compensation acts), fees, assessments and other charges assessed by any Governmental Authority in connection therewith.

SECTION 12.06. Construction. This Agreement and the other Alliance Agreements have been negotiated by the Parties and their respective counsel and shall be fairly interpreted in accordance with its terms and without any strict construction in favor of or against either of the Parties.

SECTION 12.07. Language. The Parties have negotiated this Agreement in the English language, which shall be the governing language of this Agreement.

SECTION 12.08. Relationship of the Parties. Except for provisions herein expressly authorizing one Party to act for another, this Agreement and the other Alliance Agreements shall not constitute any Party as a legal representative or agent of any other Party, nor shall a Party have the right or authority to assume, create or incur any liability of any kind, expressed or implied, against or in the name or on behalf of the other Party or any of its Affiliates. The Parties shall perform their obligations under the Alliance Agreements as independent contractors and nothing contained in this Agreement or any other Alliance Agreement is intended to, or shall be deemed to, create a partnership or joint venture relationship among the Parties or any of their Affiliates for any purpose, including tax purposes. Each Party has sole authority and responsibility to hire, fire and otherwise control its employees. Neither of the Parties nor any of their respective Affiliates will take a position contrary to the foregoing.

SECTION 12.09. Entire Agreement. The provisions of this Agreement and the other Alliance Agreements set forth the entire agreement and understanding between the Parties as to the subject matter hereof and thereof and supersede all prior agreements, oral or written, and all other prior communications between the Parties relating to the subject matter hereof and thereof.

SECTION 12.10. Force Majeure. Neither Party will be considered in default or liable for any delay or failure to perform any provision of this Agreement or any of the other Alliance Agreements if such delay or failure arises directly or indirectly out of an act of God, acts of the public enemy, freight embargoes, quarantine restrictions, unusually severe weather conditions, insurrection, riot or other such causes beyond the reasonable control of the Party responsible for the delay or failure to perform; provided that the Party that has failed to perform for such reason notifies the other Party within 15



days of the occurrence; and provided, further, that the Party affected by such delay is using commercially reasonable efforts to mitigate or eliminate the cause of such delay or its effects and, if events in the nature of the force majeure event were foreseeable, use commercially reasonable efforts prior to its occurrence to anticipate and avoid its occurrence or effect. In the event of such force majeure event, the date of performance hereunder or under any of the other Alliance Agreements shall be extended for a period not to exceed the time lost by reason of the failure or delay.

SECTION 12.11. Counterparts. This Agreement and the other Alliance Agreements may be executed in two or more counterparts, each of which shall be binding as of the date first written above (or, in the case of the Services Agreement, on the date of such agreement or agreements), and all of which shall constitute one and the same instrument. Each such counterpart shall be deemed an original, and it shall not be necessary in making proof of this Agreement or the Alliance Agreements to produce or account for more than one such counterpart.

SECTION 12.12. Governing Law. This Agreement and the other Alliance Agreements will be construed and interpreted in accordance with and governed by the laws of the State of New York (without regard to the choice of law provisions thereof).

SECTION 12.13. Order of Precedence. In the event of an inconsistency or conflict between a provision of this Agreement and a provision of any other Alliance Agreement, this Agreement shall prevail unless such other Alliance Agreement expressly provides that its provision supersedes the provision of this Agreement.

SECTION 12.14. Notices. Any and all notices, requests, demands and other communications required or otherwise contemplated to be made under this Agreement and the other Alliance Agreements shall be in writing and in English, shall be provided by one or more of the following means and shall be deemed to have been duly given (a) if delivered personally, when received, (b) if transmitted by facsimile (to those for whom a facsimile number is set forth below), on the date of receipt of the transmission confirmed by receipt of a transmittal confirmation, or (c) if delivered by international courier service, on the fourth Business Day following the date of deposit with such courier service.

All such notices, requests, demands and other communications relating to any of the Alliance Agreements shall be addressed as follows:

(a) If to ACI:

ACI Worldwide, Inc.
120 Broadway, Suite 3350
New York, New York 10271
Attention: Philip Heasley, Chief Executive Officer
Telephone: (646) 348-6700
Facsimile: (212) 479-4000



with a copy (which copy shall not constitute notice) to the following in-house counsel of ACI:

ACI Worldwide, Inc.
224 South 108th Avenue, Suite 7
Omaha, Nebraska 68154
Attention: Dennis P. Byrnes, Senior Vice President and General Counsel
Telephone: (402) 390-8993
Facsimile: (402) 390-8077

(b) If to IBM:

IBM Corporation
New Orchard Road
Armonk, NY 10504
Attention: James Wallis, IBM Alliance Executive
Telephone: (914) 766-1035

with a copy (which copy shall not constitute notice) to the following in-house counsel of IBM:

IBM Corporation
New Orchard Road
Armonk, NY 10504
Attention: Mark Goldstein, Associate General Counsel
Telephone: (914) 499-6005

In addition, all notices, requests, demands and other communications relating specifically to this Agreement shall be addressed as follows:

(c) If to ACI:

ACI Worldwide, Inc.
120 Broadway, Suite 3350
New York, New York 10271
Attention: Philip Heasley, Chief Executive Officer
Telephone: (646) 348-6700
Facsimile: (212) 479-4000

with a copy (which copy shall not constitute notice) to:



ACI Worldwide, Inc.
224 South 108th Avenue, Suite 7
Omaha, Nebraska 68154
Attention: Dennis P. Byrnes, Senior Vice President and General Counsel
Telephone: (402) 390-8993
Facsimile: (402) 390-8077

and

Jones Day
222 East 41st Street
New York, New York 10017-6702
Attention: Robert A. Profusek
Telephone: (212) 326-3800
Facsimile: (212) 755-7306

(d) If to IBM:

IBM Corporation
New Orchard Road
Armonk, NY 10504
Attention: Cosmo L. Nista, Vice President, Mergers and Acquisitions
Telephone: (914) 499-5700

with a copy (which copy shall not constitute notice) to:

Cravath, Swaine & Moore LLP
Worldwide Plaza
825 Eighth Avenue
New York, NY 10019
Attention: Craig F. Arcella
Telephone: 212-474-1000
Facsimile: 212-474-3700

[Remainder of page intentionally blank]



IN WITNESS WHEREOF, ACI and IBM have caused their respective duly authorized officers to execute this Agreement as of the day and year first above written.

**ACI WORLDWIDE, INC,**

By /s/ Philip G. Heasley
Name: Philip G. Heasley
Title: Chief Executive Officer

**INTERNATIONAL BUSINESS MACHINES CORPORATION,**

By /s/ Cosmo L. Nista
Name: Cosmo L. Nista
Title: Vice President Corporate Development, M&A

**Exhibit 10.2**

EXECUTION COPY

**WARRANT AGREEMENT BETWEEN**

**ACI WORLDWIDE, INC.**

**AND**

**INTERNATIONAL BUSINESS MACHINES CORPORATION**

**December 16, 2007**



**TABLE OF CONTENTS**





**WARRANT AGREEMENT**

*Neither this Warrant nor the Warrant Shares as defined herein have been registered under the Securities Act of 1933, as amended, or any other applicable securities laws. Neither this Warrant nor the Warrant Shares may be sold or transferred in the absence of such registration or any exemption from such registration.*

Right to Purchase 1,427,035 Shares of Common Stock

Dated as of December 16, 2007

Pursuant to Section 6.01 of the Master Alliance Agreement by and between ACI Worldwide, Inc., a Delaware corporation (the "Company"), and International Business Machines Corporation, a New York corporation ("IBM", and each of its permitted successors and assigns, a "Holder"), dated December 16, 2007 (the "Master Alliance Agreement"), ACI has granted on the date hereof to IBM a warrant (this "Warrant") to purchase the Warrant Shares at the Purchase Price. Capitalized terms not otherwise defined herein (including the Appendices hereto) have the meanings assigned thereto in the Master Alliance Agreement. This Warrant is subject to the applicable provisions of the Master Alliance Agreement.

1. Exercise and Expiration of Warrant.

(a) This Warrant is immediately exercisable at any time and from time to time on any Business Day on or after the date hereof. This Warrant will expire at the close of business on the fifth anniversary of the date hereof. "Exercise Period" shall mean the period of time between the date hereof and the expiration of this Warrant in accordance with the terms hereof.

(b) This Warrant may be exercised during the Exercise Period by the Holder, in whole or in part, by delivering this Warrant to the Company with payment of the Purchase Price in immediately available funds. In the event that this Warrant is not exercised in full immediately prior to the end of the Exercise Period and at such time the then-current Market Price of a share of the Common Stock is greater than the Purchase Price, this Warrant shall be deemed automatically exercised as to the remaining Warrant Shares at such time without the delivery of any written notice from the Holder and the Warrant Shares shall thereupon be issuable by the Company upon payment of the Purchase Price by the Holder to the Company.

(c) Upon exercise of this Warrant, the Company will issue to the Holder (i) a certificate or certificates for the number of full Warrant Shares to which the Holder shall be entitled upon such exercise plus the cash value of any fractional share to which the Holder would otherwise be entitled, and (ii) in case such exercise is in part only, a new warrant or warrants in the form hereof representing the Warrant to purchase the remaining Warrant Shares.



(d) If applicable, in the opinion of counsel to the Company, any Warrant Shares issued upon exercise of this Warrant will bear any legend required by Applicable Law. At any time that any such legend is no longer required by Applicable Law, the Company shall, at the request of the Holder, exchange such legended Warrant Shares for Warrant Shares that do not bear such legend. In furtherance of the foregoing, any such Warrant Shares bearing a legend with respect to transferability thereof shall be so exchanged if the Holder certifies in writing to the Company that its request for such exchange was made to effect a transfer pursuant to (i) Rule 144 under the Securities Act or (ii) a registration statement that has been declared effective under the Securities Act.

(e) The Company and each Holder will furnish bank account and other information so that any payment to be made or received hereunder is made by bank wire transfer. Any such information may be changed by notice given as herein contemplated.

(f) Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the day on which this Warrant shall have been surrendered pursuant to Section 1(b) and other deliverables required pursuant to Section 1(b) shall have been provided; provided, however, that failure to surrender this Warrant or provide any such deliverables shall not impact the effectiveness of any exercise of this Warrant pursuant to the last sentence of Section 1(b).

2. Certain Agreements of the Company. The Company agrees as follows:

(a) Shares to be Fully Paid. All Warrant Shares will, upon issuance in accordance with the terms of this Warrant, be validly issued, fully paid, and nonassessable and free from all taxes, liens, claims and encumbrances.

(b) Authorization and Reservation of Shares. During the Exercise Period, the Company shall have duly authorized a sufficient number of shares of Common Stock, free from preemptive rights and from any other restrictions imposed by the Company without the consent of the Holder, to provide for the exercise in full of this Warrant. The Company shall at all times during the Exercise Period reserve and keep available out of such authorized but unissued shares of Common Stock such number of shares to provide for the exercise in full of this Warrant.

(c) Listing. In connection with the Holder's exercise of Registration Rights hereunder or any other sale of Warrant Shares, the Company shall use its reasonable best efforts to promptly secure, the listing of the shares of Common Stock issuable upon exercise of this Warrant upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed or become listed (subject to official notice of issuance upon exercise of this Warrant) and shall maintain such listing for so long as any other shares of Common Stock shall be so listed.



(d) Certain Actions Prohibited. The Company will not, by amendment of its charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder.

(e) Successors and Assigns. Except as expressly provided otherwise herein, this Warrant will be binding upon any entity succeeding to the Company by merger, consolidation, or acquisition of all or substantially all of the Company's assets.

(f) Blue Sky Laws. The Company shall, on or before the date of issuance of any Warrant Shares, use its reasonable best efforts to take such actions as the Company shall reasonably determine are necessary to qualify the Warrant Shares for, or obtain exemption for the Warrant Shares for, sale to the Holder of this Warrant upon the exercise hereof under applicable securities or "blue sky" laws of the states of the United States, and shall provide written evidence of any such action so taken to the Holder of this Warrant prior to such date; provided, however, that the Company shall not be required to qualify as a foreign corporation or file a general consent to service of process in any such jurisdiction.

(g) Rule 144 Reports. So long as, and at any time that, the Company is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company shall use its reasonable best efforts to take all actions reasonably necessary to enable the Holder to sell the Warrant Shares without registration under the Securities Act within the limitations of the exemptions provided by Rule 144 under the Securities Act, as such rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission, including using its use reasonable best efforts to file on a timely basis all reports required to be filed by the Exchange Act. Upon the request of the Holder, the Company shall deliver to the Holder a written statement as to whether it has complied with such requirements.

(h) The Holder acknowledges that during the Company's fiscal year 2006 and fiscal year 2007, the Company failed to make certain required filings with the Commission on a timely basis. While it is the intention of the Company to make all such filings on a timely basis and to maintain the listing thereof on a national securities exchange or automated quotation system so long as the Common Stock is eligible therefor, there can be no assurance that the Company will be able to do so. Notwithstanding any other provision hereof or of any other agreement between the Company and IBM, in no event will the Company have any liability to any Holder, including without limitation pursuant to Section 2(f) or 2(g) above, solely as a result of the failure to make such filings on a timely basis or to maintain such listing.

3. Antidilution Adjustments. The Purchase Price and the number of Warrant Shares may be adjusted from time to time as set forth in Appendix B.

4. Registration Rights. This Warrant shall have the Registration Rights set forth in Appendix C.



5. Mergers; Transfer of Assets; Liquidation. (a) If there shall occur any capital reorganization or reclassification of the Company's Common Stock (other than a subdivision or combination as provided for in paragraph (b) of Appendix B), or any consolidation or merger of the Company with or into another Person, or a transfer of all or substantially all of the assets of the Company to another Person (any such Person, a "Successor Company"), then, as part of any such reorganization, reclassification, consolidation, merger or transfer, as the case may be, lawful provision shall be made so that the Holder of this Warrant shall have the right thereafter to receive upon the exercise hereof the kind and amount of shares of stock or other securities or property which such Holder would have been entitled to receive if, immediately prior to any such reorganization, reclassification, consolidation, merger or transfer, as the case may be, such Holder had held the number of shares of Common Stock which were then purchasable upon the exercise of this Warrant. The provisions of this Section 5 shall similarly apply to any successive consolidation, merger or transfer of all or substantially all of the assets involving any Successor Company. In any such case, appropriate adjustment (as reasonably determined in good faith by the Board) shall be made in the application of the provisions set forth herein with respect to the rights and interests thereafter of the Holder of this Warrant, such that the provisions set forth herein shall thereafter be applicable, as nearly as is reasonably practicable, in relation to any shares of stock or other securities or property thereafter deliverable upon the exercise of this Warrant.

(b) In the event of the voluntary or involuntary dissolution, liquidation or winding-up of the Company, the Holder shall be entitled to receive, upon surrender of this Warrant, such cash distributions on an equal basis with the holders of Common Stock or other securities issuable upon exercise of this Warrant, as if the Warrant had been exercised immediately prior to such event, less the Purchase Price.

6. Transfer, Exchange, and Replacement

(a) Transferability. This Warrant shall not be transferable by the Holder other than to a Subsidiary of the Holder. After the date that is 31 days after the acquisition of any Warrant Shares pursuant to the exercise of this Warrant, such Warrant Shares shall be freely transferable in accordance with Applicable Law, including pursuant to Rule 144, pursuant to an effective registration statement under the Securities Act or pursuant to any transaction that is exempt from registration under the Securities Act.

(b) Warrant Exchangeable for Different Denominations. This Warrant is exchangeable, upon the surrender hereof by the Holder hereof at the office or agency of the Company referred to in Section 7 below, for new warrants of like tenor of different denominations representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new warrants to represent the right to purchase such number of shares as shall be designated by the Holder hereof at the time of such surrender.

(c) Replacement of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement or surety bond reasonably



satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

(d) Cancellation; Payment of Expenses. Upon the surrender of this Warrant in connection with any transfer, exchange, or replacement as provided in this Section 6, this Warrant shall be promptly canceled by the Company. The Company shall pay all taxes (other than securities transfer and income taxes) and all other expenses (other than legal expenses, if any, incurred by the Holder or transferees) payable in connection with the preparation, execution, and delivery of warrants pursuant to this Section 6. The Company shall indemnify and reimburse the Holder of this Warrant for all reasonable costs and reasonable expenses (including legal fees) incurred by such Holder in connection with any successful enforcement of its rights hereunder.

(e) Warrant Register. The Company shall maintain, at its principal executive offices (or such other office or agency of the Company as it may designate by notice to the Holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

7. Notices. Any notices required or permitted to be given under the terms of this Warrant shall be delivered personally or by courier or by confirmed telecopy, and shall be effective upon receipt or refusal of receipt, if delivered personally or by courier, or by confirmed email or fax, in each case addressed to a party. The addresses for such communications shall be (a) with respect to IBM and ACI, the applicable addresses set forth in Section 12.14 of

the Master Alliance Agreement and (b) with respect to any other Holder, at such address as such Holder shall have provided in writing to the Company, or at such other address as any Holder furnishes by notice given in accordance with this Section 7.

8. Miscellaneous.

(a) Amendments. Notwithstanding the provisions set forth in Section 12.02 of the Master Alliance Agreement, this Warrant and any provision hereof may only be amended by an instrument in writing signed by the Company and all Holders hereof.

(b) Rights of Holders. Holders of this Warrant are not entitled to (i) receive notice of or vote at any meeting of the stockholders of ACI, (ii) consent to any action of the stockholders of ACI or (iii) exercise any preemptive right, in each case solely by virtue of its status as a Holder of this Warrant.

(c) U.S. Dollars. All references in this Warrant to "dollars" or "$" shall mean the U.S. dollar.



(d) Fractional Shares. The Company shall not be required upon the exercise of this Warrant to issue any fractional shares, but shall make an adjustment therefor in cash on the basis of the then-current Market Price.

(e) Descriptive Headings. The descriptive headings of the several sections of this Warrant are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

(f) Survival. The covenants made by the parties hereto shall survive the execution and delivery of this Agreement.



IN WITNESS WHEREOF, the undersigned have executed this Warrant as of the date first written above.

ACI WORLDWIDE, INC.

By: /s/ Philip G. Heasley
Name: Philip G. Heasley
Title: Chief Executive Officer

INTERNATIONAL BUSINESS MACHINES CORPORATION

By: /s/ Cosmo L. Nista
Name: Cosmo L. Nista
Title: Vice President Corporate Development, M&A



***APPENDIX A — DEFINITIONS***

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

"Commission" shall mean the U.S. Securities and Exchange Commission.

"Common Stock" shall mean the common stock, par value $0.005, of ACI.

"Company" shall have the meaning specified in the initial paragraph of the Warrant.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission promulgated thereunder.

"Exercise Period" shall have the meaning specified in Section 1(a) of the Warrant.

"Holder" shall have the meaning specified in the initial paragraph of the Warrant.

"IBM" shall have the meaning specified in the initial paragraph of the Warrant.

"Market Price" shall mean the following: (i) the average of the closing sale prices for the shares of Common Stock as reported on the principal trading exchange for the Common Stock (which, on the date of this Agreement, is the Nasdaq National Market) for the ten (10) consecutive trading days immediately preceding such date, or if no sale price is so reported on any day during such period, the average of the highest bid price and the lowest ask price at the end of such day, or (ii) if the foregoing does not apply, the last sale price of such security in the over-the-counter market on the pink sheets or bulletin board for such security on the last trading day immediately preceding such date, or if no sale price is so reported for such security, the average of the highest bid price and the lowest ask price for such security on the last trading day immediately preceding such date, or (iii) if market value cannot be calculated as of such date on any of the foregoing bases, the Market Price shall be the fair market value as of such date as reasonably determined by an investment banking firm selected by the Company and reasonably acceptable to the Holder, with the costs of the determination to be borne by the Company.

"Purchase Price" shall mean $33.00 per share of Common Stock, as may be adjusted from time to time pursuant to Appendix B.

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations of the Commission promulgated thereunder.

"Warrant" shall have the meaning specified in the initial paragraph of the Warrant.



"Warrant Shares" shall mean 1,427,035 shares of Common Stock, as may be adjusted from time to time pursuant to Appendix B.



***APPENDIX B — ANTIDILUTION PROVISIONS***

(a) Diluting Issuances.

(i) Special Definitions. For purposes of this Appendix B, the following definitions shall apply: (A) "Option" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities; (B) "Convertible Securities" shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock; and (C) "Additional Shares of Common Stock" shall mean all shares of Common Stock issued (or, pursuant to (a)(iii) below, deemed to be issued) by the Company after the date hereof other than shares of Common Stock issued upon exercise of (x) this Warrant or (y) the Warrant to purchase 1,427,035 shares of Common Stock at a price of $27.50 per share, granted by the Company to IBM on the date hereof.

(ii) No Adjustment of Purchase Price. No adjustments to the Purchase Price under this Appendix B shall be made unless the consideration per share (determined pursuant to (a)(v) below) for an Additional Share of Common Stock issued or deemed to be issued by the Company is less than the Market Price in effect on the date of, and immediately prior to, the issue of such Additional Shares of Common Stock. Notwithstanding anything to the contrary contained elsewhere in this Appendix B, no adjustment to the Purchase Price shall be made for Common Stock issued or deemed to be issued by the Company upon the exercise of Options that (1) were issued and outstanding as of the date hereof, (2) are issued after the date hereof pursuant to compensation plans approved by the shareholders of the Company and pursuant to which the consideration payable to the Company upon the exercise thereof is no less than the closing sale price (price for last trade) per share of Common Stock as reported on the principal trading exchange for the Common Stock or (3) are issued by the Company to all of the holders of its Common Stock and are concurrently issued to the Holder such that the Holder receives, with respect to any portion of this Warrant that is unexercised at such time, the same number of such Options as it would have received had this Warrant been fully exercised immediately prior to such distribution.

(iii) Issue of Securities Deemed Issue of Additional Shares of Common Stock. If the Company at any time or from time to time after the date hereof shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities (in each case other than in connection with the adoption of a shareholder rights plan by the Company), then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that Additional Shares of Common Stock shall not be deemed to have been issued unless the consideration per share (determined pursuant to (a)(v) below) of such Additional Shares of Common Stock would be less



than the Market Price in effect on the date of and immediately prior to such issue, or such record date, as the case may be, and provided, further, that, in any such case in which Additional Shares of Common Stock are deemed to be issued:

(A) No further adjustment in the Purchase Price shall be made upon the subsequent issue of Convertible Securities or shares of Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(B) If such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase in the consideration payable to the Company, upon the exercise, conversion or exchange thereof, the Purchase Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase becoming effective, be recomputed to reflect such increase insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities;

(C) Upon the expiration, maturity or termination of any unexercised Option or Convertible Security, as applicable, the Purchase Price shall be readjusted, and the Additional Shares of Common Stock deemed issued as the result of the original issue of such Option or Convertible Security shall not be deemed issued for the purposes of any subsequent adjustment of the Purchase Price;

(D) In the event of any change in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any Option or Convertible Security, including, but not limited to, a change resulting from the anti-dilution provisions thereof, the Purchase Price then in effect shall forthwith be readjusted to such Purchase Price as would have been obtained had the adjustment which was made upon the issuance of such Option or Convertible Security not exercised or converted prior to such change been made upon the basis of such change; and

(E) No readjustment pursuant to Clause (B) or (D) above shall have the effect of increasing the Purchase Price to an amount which exceeds the lower of (i) the Purchase Price on the original adjustment date, or (ii) the Purchase Price that would have resulted from any issuances of Additional Shares of Common Stock between the original adjustment date and such readjustment date.

(iv) Adjustment of Purchase Price Upon Issuance of Additional Shares of Common Stock. In the event the Company shall at any time after the date hereof issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to (a)(iii) above, but excluding shares issued as a dividend or distribution or upon a stock split or combination as provided in (b) below), without consideration or for a consideration per share less than the Market Price in effect on the date of and immediately prior to such issue, then and in such event, the Purchase Price shall be reduced, concurrently with such issue, to a price (calculated to the nearest cent) determined by multiplying such Purchase Price by a fraction, (A) the numerator of which shall be (1) the number of shares of Common Stock



outstanding immediately prior to such issue plus (2) the number of shares of Common Stock which the aggregate consideration received or to be received by the Company for the total number of Additional Shares of Common Stock so issued would purchase at such Purchase Price; and (B) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of such Additional Shares of Common Stock so issued; provided that, (i) for the purpose of this (a)(iv), all shares of Common Stock issuable upon exercise or conversion of Options or Convertible Securities outstanding immediately prior to such issue shall be deemed to be outstanding (other than shares excluded from the definition of "Additional Shares of Common Stock" by virtue of (a)(i)(D) above), and (ii) the number of shares of Common Stock deemed issuable upon conversion of such outstanding Options and Convertible Securities shall not give effect to any adjustments to the conversion price or conversion rate of such Options or Convertible Securities resulting from the issuance of Additional Shares of Common Stock that is the subject of this calculation; provided, further, that no adjustment to the Purchase Price shall be made pursuant to this Section (a)(iv) as a result of the issuance of Additional Shares of Common Stock pursuant to (x) a bona fide underwritten public offering or (y) any transaction referred to in Section 5 of the Warrant Agreement, or any other acquisition (whether by merger, consolidation, stock or asset purchase or other form of business combination) of any business (other than from an Affiliate of the Company) in an arms'-length transaction. See also paragraph (c) of this Appendix B ("Adjustment in Number of Warrant Shares").

(v) Adjustment of Purchase Price Upon Cash Distributions. In the event the Company shall at any time after the date hereof distribute to all holders of Common Stock (a) any dividend or other distribution (including any dividend or distribution made in connection with a consolidation or merger in which the Company is the continuing corporation) of cash (other than cash dividends declared and paid pursuant to a regular quarterly dividend policy in effect on the relevant date and consistent with corresponding policies of peer companies in the Company's industry) evidences of its indebtedness, shares of its capital stock or any other properties or securities or (b) any options, warrants or other rights to subscribe for, purchase, or which are convertible into, any of the foregoing, then and in such event, the Purchase Price shall be adjusted to a number determined by multiplying the Purchase Price immediately prior to the record date for any such dividend or distribution by a fraction, the numerator of which shall be the then-current Market Price of a share of the Common Stock on such record date less the sum of (x) the amount of cash, if any, distributed per share of Common Stock and (y) the then fair value (as determined in good faith by the Board) of the portion, if any, of the distribution applicable to one share of Common Stock consisting of evidences of indebtedness, shares of stock, securities, other property, warrants, options or subscription or purchase rights, and the denominator of which shall be such Market Price. Such adjustments shall be made, and shall only become effective, whenever any dividend or distribution to which this Section (a)(v) applies is made; provided, however, that the Company is not required to make an adjustment pursuant to this Section (a)(v) if at the time of such distribution the Company makes the same distribution to the Holder as it makes to holders of Common Stock pro rata based on the number of shares of Common Stock for which such Warrants are exercisable (whether or not currently exercisable). No adjustment shall be made pursuant to this Section (a)(v) which shall have the effect of decreasing the number of shares of Common Stock issuable upon exercise of each Warrant or



increasing the Purchase Price. See also paragraph (c) of this Appendix B ("Adjustment in Number of Warrant Shares").

(vi) Determination of Consideration. For purposes of section (a), the consideration received by the Company for the issue of any Additional Shares of Common Stock shall be computed as follows:

(A) Cash and Property: Such consideration shall (I) insofar as it consists of cash, be computed at the aggregate of cash received by the Company, excluding amounts paid or payable for accrued interest or accrued dividends; (II) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board; and (III) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Company for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (I) and (II) above, as determined in good faith by the Board.

(B) Options and Convertible Securities. The consideration per share received by the Company for Additional Shares of Common Stock deemed to have been issued pursuant to (a)(iii) above, relating to Options and Convertible Securities, shall be determined by dividing (x) the total amount, if any, received or receivable by the Company as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Company upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by (y) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

(vii) Multiple Closing Dates. In the event the Company shall issue on more than one date Additional Shares of Common Stock which are comprised of shares of the same series or class of capital stock, and such issuance dates occur within a period of no more than 60 days, then the Purchase Price shall be adjusted only once on account of such issuances, with such adjustment to occur upon the final such issuance (but not later than ten days prior to the end of the Exercise Period) and to give effect to all such issuances as if they occurred on the date of the final such issuance.

(b) Recapitalizations. If outstanding shares of the Company's Common Stock shall be subdivided or reclassified into a greater number of shares or a dividend or other distribution in Common Stock shall be paid in respect of Common Stock, the Purchase Price in effect immediately prior to such subdivision or at the record date of such dividend shall simultaneously with the effectiveness of such subdivision or immediately after the record date of such dividend be proportionately reduced. If outstanding shares of Common Stock shall be combined or



reclassified into a smaller number of shares, the Purchase Price in effect immediately prior to such combination shall, simultaneously with the effectiveness of such combination, be proportionately increased. See also paragraph (c) of this Appendix B ("Adjustment in Number of Warrant Shares").

(c) Adjustment in Number of Warrant Shares. When any adjustment is required to be made in the Purchase Price, the number of Warrant Shares purchasable upon the exercise of this Warrant shall be changed to the number determined by dividing (i) an amount equal to the number of shares issuable upon the exercise of this Warrant immediately prior to such adjustment, multiplied by the Purchase Price in effect immediately prior to such adjustment, by (ii) the Purchase Price in effect immediately after such adjustment.

(d) Certificate of Adjustment. When any adjustment is required to be made pursuant to this Appendix B, the Company shall promptly mail to the Holder a certificate setting forth the Purchase Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment. Such certificate shall also set forth the kind and amount of stock or other securities or property into which this Warrant shall be exercisable following such adjustment.

(e) Other Notices. In case at any time following the date hereof and prior to the expiration of this Warrant or the exercise in full of this Warrant:

(i) the Company shall declare any dividend upon the Common Stock payable in shares of stock of any class or make any other distribution to the holders of the Common Stock;

(ii) the Company shall offer for subscription pro rata to the holders of the Common Stock any additional shares of stock of any class or other rights;

(iii) there shall be any capital reorganization of the Company, or reclassification of the Common Stock, or consolidation or merger of the Company with or into, or sale of all or substantially all of its assets to, another corporation or entity; or

(iv) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then, in each such case, the Company shall give to the Holder (a) notice of the date on which the books of the Company shall close or a record shall be taken for determining the holders of Common Stock entitled to receive any such dividend, distribution, or subscription rights or for determining the holders of Common Stock entitled to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up and (b) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, notice of the date (or, if not then known, a reasonable estimate thereof by the Company) when the same shall take place. Such notice shall also specify the date on which the holders of Common Stock shall be entitled to receive such dividend, distribution, or subscription rights or to exchange their Common Stock for stock or other securities or property



deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, or winding-up, as the case may be. Such notice shall be given at least ten (10) Business Days prior to the record date or the date on which the Company's books are closed in respect thereto. Failure to give any such notice or any defect therein shall not affect the validity of the proceedings referred to in clauses (i), (ii), (iii) and (iv) above.

(f) Certain Events. If any event occurs as to which the foregoing provisions of this Appendix B are not strictly applicable or, if strictly applicable, would not, in the good faith judgment of the Board, fairly and adequately protect the purchase rights of the Warrants in accordance with the essential intent and principles of such provisions, then the Board shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as shall be reasonably necessary, in the good faith opinion of the Board, to protect such purchase rights as aforesaid, but in no event shall any such adjustment have the effect of increasing the Purchase Price or decreasing the number of shares of Common Stock issuable upon exercise of the Warrants.

(g) Minimum Adjustment. The adjustments required by this Appendix B shall be made whenever and as often as any specified event requiring an adjustment shall occur, except that no adjustment of the Purchase Price or the number of shares of Common Stock issuable upon exercise of the Warrants that would otherwise be required shall be made unless and until such adjustment either by itself or with other adjustments not previously made increases or decreases by at least 1% the Purchase Price or the number of shares of Common Stock issuable upon exercise of the Warrants immediately prior to the making of such adjustment. Any adjustment representing a change of less than such minimum amount shall be carried forward and made as soon as such adjustment, together with other adjustments required by this Appendix B and not previously made, would result in a minimum adjustment. In computing adjustments under this Appendix B, fractional interests in Common Stock shall be taken into account to the nearest one-hundredth of a share.



***APPENDIX C — REGISTRATION RIGHTS***

Section 1. Shelf Registration. (a) The Company shall file on or prior to January 15, 2009, and shall use its reasonable best efforts to cause to be declared effective as soon as practicable after the filing thereof, and shall in any event use its reasonable best efforts to cause to be declared effective on or prior to March 15, 2009, a shelf registration statement on an appropriate form under the Securities Act relating to the offer and sale of any Warrant Shares that have been issued pursuant to the Warrants by the Holder from time to time in accordance with the methods of distribution elected by the Holder (excluding underwritten public offerings) and set forth in such shelf registration statement (hereafter, a "Shelf Registration Statement").

(b) The Company shall use its reasonable best efforts to keep the Shelf Registration Statement continuously effective, supplemented and amended as required by the Securities Act until the earlier of (i) such time as all Warrant Shares registered thereby have been sold thereunder and (ii) receipt by the Holder of an opinion of counsel (which may be counsel to the Company) reasonably satisfactory to the Holder to the effect that all Warrant Shares can be sold without restriction under the Securities Act.

Section 2. Effective Registration Statement. A registration pursuant to Section 1 above will not be deemed to have been effected unless the Shelf Registration Statement relating thereto has become effective under the Securities Act. During any 365-day consecutive period, the Company may from time to time delay the filing or suspend the effectiveness of any Shelf Registration Statement, or without suspending such effectiveness, instruct the Holder not to sell Warrant Shares included in any such Shelf Registration Statement, for up to ninety (90) days (any such period, a "Suspension Period"), whether or not consecutive (provided that, in no event shall any such Suspension Period be for a period of time longer than forty-five (45) consecutive days), in any such 365-day period if the Company shall have determined upon the advice of counsel (which may be counsel to the Company) reasonably satisfactory to the Holder that the Company would be required by law to disclose any actions taken or proposed to be taken by the Company in good faith and for valid business reasons, including without limitation the acquisition or divestiture of assets, which disclosure would have a material adverse effect on the Company or such actions (including the timing thereof) (a "Suspension Period"), by providing the Holder with written notice of such Suspension Period. The Company shall use its reasonable best efforts to provide such notice as soon as practicable and in any event prior to the commencement of such a Suspension Period.

Section 3. Piggyback Registration Rights. (a) If the Company proposes at any time or from time to time to sell shares of any Common Stock for its own account or the account of any other Person in an underwritten public offering pursuant to a registration statement under the Securities Act, the Company shall give written notice to the Holder, as soon as practicable but in no event fewer than fifteen (15) days before the anticipated filing of a registration statement (a "Piggyback Registration Statement") related to such underwritten public offering (other than a registration statement on Form S-4 or Form S-8 under the Securities Act or any successor forms thereto), of such proposed underwritten public offering to the Holder, and such notice shall offer to the Holder the opportunity to include in such underwritten public offering



such number of Warrant Shares as such Holder may request. At any time during the period in which the Warrants are exercisable, within ten (10) days after receipt of such notice, the Holder shall have the right by notifying the Company in writing to require the Company to include in the registration statement relating to such underwritten public offering such number of Warrant Shares as such Holder may request.

The Company shall use its reasonable best efforts to cause the managing underwriters of such underwritten public offering to permit the Warrant Shares requested to be included in a Piggyback Registration Statement to be included on the same terms and conditions as any Common Stock or any other security included therein and to permit the sale or other disposition of such Warrant Shares in accordance with the intended method of distribution thereof.

The Holder shall have the right to withdraw its request for inclusion of its Warrant Shares in any such registration statement pursuant to this Section 3 by giving written notice to the Company of its request to withdraw prior to the time that the Company has printed for public distribution a preliminary prospectus with respect to such registration statement, provided, however, that a Withdrawal Election shall be irrevocable and, after making a Withdrawal Election (as defined below), the Holder shall no longer have any right to include Warrant Shares in the registration as to which such Withdrawal Election was made.

(b) Notwithstanding Section 3(a), if at any time the managing underwriters of such underwritten public offering shall advise the Company that, in their opinion, the total number of securities proposed to be sold in such underwritten public offering (including the total number of Warrant Shares that the Holder has requested to be sold in such underwritten public offering and the total number of Common Stock requested to be included by any other selling shareholder entitled to sell shares in such underwritten public offering) exceeds the maximum number of such securities which the managing underwriters believe may be sold without materially adversely affecting the success of such underwriting public offering, including the price at which such shares can be sold, then the Company will be required to include in such underwritten public offering only that number of securities which the managing underwriters believe may be sold without causing such adverse effect in the following order: (i) all the securities that the Company proposes to sell in such underwritten public offering, and all the securities that are proposed to be sold by any holder or group of holders of Common Stock who are participating in

connection with a demand registration right (other than by exercising so-called "piggyback" registration rights) that existed on the date hereof, if such underwritten public offering is being made pursuant to such demand (in the priority agreed upon between the Company and the holders of such demand registration rights) and (ii) shares of the Holder and all other securities that are proposed to be sold by any holder of capital stock of the Company exercising a so-called "piggyback" registration right on a pro rata basis in an aggregate number which is equal to the difference between the maximum number of securities to be included in such underwritten public offering as determined by the managing underwriters and the number of shares to be sold in such underwritten public offering pursuant to clause (i) above. The Company will have the right to postpone or withdraw any registration statement relating to an underwritten public offering described under this Section 3 without obligation to the Holder; provided that, no such postponement or withdrawal may be effected in the event that any sales of securities under



such registration statement have been consummated. The Company may withdraw a Piggyback Registration Statement at any time or the Company may elect to delay or abandon the proposed registration, in each case subject to the proviso in the immediately preceding sentence, without any liability to the Holder; provided, however, that the Company shall give prompt written notice thereof to the Security Holder.

If, as a result of the provisions of this Section 3(b), the Holder shall not be entitled to include all Warrant Shares in a registration under this Section 3 that the Holder has requested to be included, the Holder may elect to withdraw its request to include Warrant Shares in such a registration (a "Withdrawal Election") by giving prompt written notice to the Company of such Withdrawal Election prior to the time that the Company has printed a preliminary prospectus for public distribution with respect to such registration statement; provided, however, that a Withdrawal Election shall be irrevocable and, after making a Withdrawal Election, the Holder shall no longer have any right to include Warrant Shares in the registration as to which such Withdrawal Election was made.

Section 4. Compliance. Notwithstanding any other provisions hereof, the Company will use reasonable best efforts to ensure that (i) any Shelf Registration Statement, any Piggyback Registration Statement and any amendment thereto and any prospectus forming part thereof and any supplement thereof complies in all material respects with the Securities Act and the rules and regulations thereunder, (ii) any Shelf Registration Statement, any Piggyback Registration Statement and any amendment thereto does not, when it becomes effective, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (iii) any prospectus forming part of any Shelf Registration Statement, any Piggyback Registration Statement and any supplement to such prospectus, does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements, in the light of the circumstances under which they were made, not misleading; provided, however, nothing herein shall create any obligation or liability for the Company relating to any information incorporated or included in such registration statement, prospectus, supplement or amendment in reliance upon and in conformity with written information provided to the Company by or on behalf of any seller or underwriter specifically for use therein.

Section 5. Expenses. The Company will pay all expenses incident to the Company's performance of its obligations under this Appendix C, including, without limitation, registration and filing fees, fees and expenses of compliance with securities or blue sky laws, printing expenses, internal expenses (including all salary and expenses of its officers and employees performing legal or accounting duties), reasonable fees and disbursements of one counsel reasonably acceptable to the Company designated by the Holder and fees and disbursements of any independent public accountants. Notwithstanding the foregoing, the parties hereto hereby agree that any underwriting discounts and selling commissions shall be payable by the Holder.

Section 6. Public Sale by the Company and Others. If any sale of Warrant Shares shall be in connection with an underwritten public offering, the Company agrees to the extent required by the managing underwriter for such offering, not to, and to use reasonable best efforts



to cause its officers and directors not to, effect any sale or distribution of any equity securities of the Company, or any convertible securities or options of the Company (including a sale pursuant to Regulation D under the Securities Act), or contract to sell, pledge or otherwise dispose of any such securities, or announce any such transaction (other than sales registered on Form S-8), during the ten (10) days prior to, and during the 90-day period beginning on, the effective date of the registration statement relating to such underwritten public offering (other than in such public offering).

Section 7. Registration Procedures. In connection with any Shelf Registration Statement and, to the extent applicable, any Piggyback Registration Statement, the Company shall:

(a) (i) not less than five (5) Business Days before filing with the Commission a registration statement or prospectus or any amendments or supplements thereto furnish to one counsel selected by the Holder copies of all such documents proposed to be filed (including all documents incorporated by reference therein and not otherwise available on EDGAR, if applicable), which documents will be subject to the review of such counsel, and (ii) use its reasonable best efforts to reflect in each such document, when so filed with the Commission, such comments as such counsel reasonably may propose;

(b) promptly notify the Holder of the Warrant Shares covered by each registration statement of (A) any stop order issued or threatened by the Commission and take all reasonable actions required to prevent the entry of such stop order or to remove it if entered; (B) when a registration statement and any amendment thereto has been filed with the Commission and when the registration statement or any post-effective amendment thereto has become effective; (C) of any request by the Commission for any amendment or supplement to the registration statement or the prospectus or for additional information; and (D) of the receipt by the Company of any notification with respect to the suspension of the qualification of the securities included therein for sale in any jurisdiction or the initiation of any proceeding for such purpose;

(c) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective for the period specified in Section 1 or Section 3 above, as applicable, and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement during such period in accordance with the intended methods of disposition by the sellers thereof set forth in such registration statement;

(d) furnish without charge to the Holder of the Warrant Shares covered by such registration statement and each other person reasonably required to deliver a prospectus such number of copies of such registration statement, each amendment and supplement thereto (in each case including all exhibits thereto) and the prospectus included in such registration (including each preliminary prospectus and supplement thereto), in conformity with the requirements of the Securities Act, and such other documents as the Holder may reasonably request in order to facilitate the disposition of the Warrant Shares,



owned by the Holder; and the Company consents to the proper use (in accordance with law and this Attachment C) of the prospectus included in such registration statement and any amendment or supplement thereto by the Holder in connection with any exercise, offer or sale of a Warrant Share covered thereby;

(e) take such actions as the Company shall reasonably determine are necessary to qualify the Warrant Shares, or obtain exemption for the Warrant Shares, under applicable securities or "blue sky" laws of the states of the United States, and take all other actions, and do all other things which may be reasonably necessary or advisable to enable the Holder to consummate the disposition in such jurisdictions of the Warrant Shares owned by the Holder; provided, however, that the Company shall not be required to qualify as a foreign corporation or file a general consent to service of process in any such jurisdiction;

(f) promptly notify the Holder of the Warrant Shares, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event if, as a result of such event, the prospectus or the relevant registration statement contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein (in the case of the prospectus), in the light of the circumstances under which they were made, not misleading, and promptly prepare and furnish to the Holder a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of such Warrant Shares, such prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(g) in the case of any Shelf Registration Statement, enter into such customary agreements and take all such other actions as the Holder reasonably requests in order to expedite or facilitate the disposition of such Warrant Shares, including customary indemnification;

(h) cause the senior management of the Company to participate in customary road shows in respect of any underwritten public offerings of Warrant Shares;

(i) upon reasonable notice and during normal business hours make available for inspection by the Holder covered by such registration statement, and any attorney, accountant or other agent retained by the Holder (collectively, the "Inspectors"), all pertinent financial and other records, pertinent corporate documents and properties of the Company and its subsidiaries as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause its and its subsidiaries' officers, directors and employees to supply all information and respond to all inquiries reasonably requested by any such Inspector in connection with such registration statement (collectively, "Information"). Any of the Information which the Company determines in good faith to be confidential, and of which determination the Inspectors are so notified, shall not be used by such seller or such Inspector for any purpose other than the exercise of such due diligence responsibility and shall not be disclosed by the Inspectors unless (i) the



disclosure of such Information is necessary to avoid or correct a material misstatement or omission in the registration statement, (ii) the release of such Information is ordered pursuant to a subpoena or other order from a court or governmental agency or authority of competent jurisdiction, (iii) such Information has been made generally available to the public through no breach of the nondisclosure obligations of the Inspectors or their Affiliates or (iv) such disclosure is required to be made under Applicable Law; and

(j) otherwise use its reasonable best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering a period of at least 12 months, beginning with the first month after the effective date of the registration statement (as the term "effective date" is defined in Rule 158(c) under the Securities Act), which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder.

As a condition to participating in any registration, the Company may require the Holder to furnish to the Company such information regarding the Holder and the distribution of such Warrant Shares that is necessary for the filing of the Shelf Registration Statement or Piggyback Registration Statement as the Company may from time to time reasonably request in writing.

The Holder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in subdivision (f) hereof, the Holder will immediately discontinue disposition of Warrant Shares pursuant to the registration statement covering such Warrant Shares until the Holder's receipt of the copies of the supplemented or amended prospectus contemplated by subdivision (f) hereof, and, if so directed by the Company, the Holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies, then in the Holder's possession of the prospectus covering such Warrant Shares current at the time of receipt of such notice.

Section 8. Indemnification. (a) Indemnification by the Company. In the event of any registration of any securities of the Company under the Securities Act, the Company shall indemnify and hold harmless the Holder, its Affiliates, its officers, directors, employees, representatives and agents, and each person, if any, who controls the Holder within the meaning of the Securities Act or the Exchange Act (collectively referred to for purposes of this Section 8 and Section 9 as a "Security Holder") from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof (including, without limitation, any loss, claim, damage, liability or action relating to purchases and sales of such securities), to which that Security Holder may become subject, whether commenced or threatened, under the Securities Act, the Exchange Act, any other Federal or state statutory law or regulation, at common law or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue

statement of a material fact contained in any registration statement under which such securities were registered under the Securities Act or any prospectus forming part thereof or in any amendment or supplement thereto or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were



made, not misleading, and shall reimburse each Security Holder promptly upon demand for any expenses (including reasonable attorneys' fees of one counsel for all Security Holders) reasonably incurred by that Security Holder in connection with investigating or defending or preparing to defend against or appearing as a third party witness in connection with any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement in or omission or alleged omission from any of such documents in reliance upon and in conformity with any information ("Holders' Information") included therein in reliance upon or in conformity with written information furnished to the Company by or on behalf of any Security Holder specifically for use therein. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of any Security Holder and shall survive the transfer of such securities by such Security Holder; provided further, however, that with respect to any untrue statement or alleged untrue statement in or omission or alleged omission from any related preliminary prospectus, the foregoing indemnity agreement shall not inure to the benefit of any Security Holder from whom the Person asserting any such loss, claim, damage, liability or action of or with respect to such Security Holder results from the fact that both (A) a copy of the final prospectus was not sent or given to such Person at or prior to the written confirmation of the sale of such securities to such Person and such copy was legally required to be sent or given to such Person and (B) the untrue statement or alleged untrue statement or omission or alleged omission was remedied in the final prospectus unless, in either case, such failure to deliver the final prospectus was a result of non-compliance by the Company with Section 7(c).

(b) Indemnification by the Security Holders. Each Security Holder shall indemnify and hold harmless the Company, its Affiliates, their respective officers, directors, employees, representatives and agents, and each person, if any, who controls any such Person within the meaning of the Securities Act or the Exchange Act (collectively referred to for purposes of this Section 8 and Section 9 as "Company Indemnified Parties"), from and against any loss, damage or liability, joint or several, or any action in respect thereof (including, without limitation, any loss, claim, damage, liability or action relating to purchases and sales of such securities), to which Company Indemnified Parties may become subject, whether commenced or threatened, under the Securities Act, the Exchange Act, any other Federal or state statutory law or regulation, at common law or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any registration statement under which such Warrant Shares were registered under the Securities Act or any prospectus forming part thereof or in any amendment or supplement thereto or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with any Holders' Information furnished to the Company by such Security Holder, and shall reimburse the Company Indemnified Parties upon demand for any legal or other expenses reasonably incurred by the Company Indemnified Parties in connection with investigating



or defending or preparing to defend against or appearing as a third party witness in connection with any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that no such Security Holder shall be liable for any indemnity claims hereunder in excess of the amount of net proceeds received by such Security Holder from the sale of such Warrant Shares pursuant to such registration statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Company Indemnified Parties or any of the Security Holders and shall survive the transfer of such Warrant Shares by such Security Holder.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of any claim or the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party pursuant to Section 8(a) or 8(b), notify the indemnifying party in writing of the claim or the commencement of that action; provided, however, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 8 except to the extent that it has been actually prejudiced (through the forfeiture of substantive rights or defenses) by such failure; provided, further, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 8. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 8 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof; provided, however, that the indemnified party (or parties, if more than one) shall collectively have the right to employ one counsel of its or their own in any such action, but the fees, expenses and other charges of such one counsel for the indemnified party will be at the expense of such indemnified party unless (1) the employment of counsel by the indemnified party has been authorized in writing by the indemnifying party, (2) the indemnified party has reasonably concluded (based upon advice of counsel to the indemnified party) that there may be legal defenses available to it or other indemnified parties that are different from or in addition to those available to the indemnifying party, (3) a conflict or potential conflict exists (based upon advice of counsel to the indemnified party) between the indemnified party and the indemnifying party (in which case the indemnifying party will not have the right to direct the defense of such action on behalf of the indemnified party) or (4) the indemnifying party has not in fact employed counsel reasonably satisfactory to the indemnified party to assume the defense of such action within a reasonable time after receiving notice of the commencement of the action, in each of which cases the reasonable fees, disbursements and other charges of such counsel will be at the expense of the indemnifying party or parties. It is agreed that the indemnifying party or parties shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the

reasonable fees, disbursements and other charges of more than one separate firm of attorneys (in addition to any local counsel) at any one time for all such indemnified party or parties. Each indemnified party, as a condition of the indemnity agreements contained in Sections 8(a) and 8(b), shall use all reasonable efforts to cooperate with the indemnifying party in the defense of any such action or claim. No indemnifying party shall be liable for any settlement of any such action effected without its written consent, but if settled with its written consent or if there be a final judgment for the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability by reason of such settlement or judgment. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could reasonably have been a party and indemnity could reasonably have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of (i) such indemnified party from all liability on claims that are the subject matter of such proceeding and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

Section 9. Contribution. If the indemnification provided for in Section 8 is unavailable or insufficient to hold harmless an indemnified party under Section 8(a) or 8(b), then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability, or action in respect thereof, (i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company from the offering and sale of such securities, on the one hand, and a Security Holder with respect to the sale by such Security Holder of such securities, on the other, or (ii) if the allocation provided by clause (i) above is not permitted by Applicable Law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, on the one hand, and such Security Holder, on the other, with respect to the statements or omissions that resulted in such loss, claim, damage or liability, or action in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company, on the one hand, and a Security Holder, on the other, with respect to such offering and such sale shall be deemed to be in the same proportion as the total net proceeds from the offering of the Warrant Shares (before deducting expenses) received by or on behalf of the Company, on the one hand, bear to the total proceeds received by such Security Holder with respect to its sale of such Warrant Shares, on the other. The relative fault shall be determined by reference to among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to the Company or information supplied by the Company, on the one hand, or to any Holders' Information supplied by such Holder, on the other, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The parties hereto agree that it would not be just and equitable if contributions pursuant to this Section 9 were to be determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, damage or liability, or action in respect thereof, referred to above in this Section 9 shall be



deemed to include, for purposes of this Section 9, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending or preparing to defend any such action or claim. Notwithstanding the provisions of this Section 9, an indemnifying party that is a Security Holder of securities, shall not be required to contribute any amount in excess of the amount by which the total price at which such securities sold by such indemnifying party to any purchaser exceeds the amount of any damages which such indemnifying party has otherwise paid or become liable to pay by reason of any untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

Section 10. Enforcement of Registration Rights. Notwithstanding anything to the contrary contained herein or in the Master Alliance Agreement, the Company hereby agrees that each Holder of Warrant Shares shall be entitled to specific performance of the registration rights hereunder, and that the Company shall pay any reasonable expenses, including without limitation reasonable attorneys' fees, in connection with any successful enforcement by any Holder of such specific performance.

Section 11. Assignment of Registration Rights. Any of the rights of the Holders hereunder, including the right to have the Company register the Warrant Shares, may be assigned by each Holder to any transferee of all or any portion of the Warrant Shares if such assignment is otherwise permitted hereunder and (i) the Holder agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company after such assignment, (ii) the Company is furnished with written notice of (A) the name and address of such transferee or assignee, and (B) the securities with respect to which such registration rights are being transferred or assigned, (iii) following such transfer or assignment, the further disposition of such securities by the transferee or assignee is restricted under the Securities Act and applicable state securities laws, and (iv) such transfer shall have been made in accordance with the applicable requirements of this Warrant. The transferee, by acceptance of the transfer of any registration rights hereunder, acknowledges that it takes such rights subject to the terms and conditions hereof. Upon any transfer of less than all of its Warrant Shares, the Holder retains registration rights with respect to Warrant Shares held by it.

**Exhibit 10.3**

EXECUTION COPY

**WARRANT AGREEMENT BETWEEN**

**ACI WORLDWIDE, INC.**

**AND**

**INTERNATIONAL BUSINESS MACHINES CORPORATION**

**December 16, 2007**



**TABLE OF CONTENTS**





**WARRANT AGREEMENT**

*Neither this Warrant nor the Warrant Shares as defined herein have been registered under the Securities Act of 1933, as amended, or any other applicable securities laws. Neither this Warrant nor the Warrant Shares may be sold or transferred in the absence of such registration or any exemption from such registration.*

Right to Purchase 1,427,035 Shares of Common Stock

Dated as of December 16, 2007

Pursuant to Section 6.01 of the Master Alliance Agreement by and between ACI Worldwide, Inc., a Delaware corporation (the "Company"), and International Business Machines Corporation, a New York corporation ("IBM", and each of its permitted successors and assigns, a "Holder"), dated December 16, 2007 (the "Master Alliance Agreement"), ACI has granted on the date hereof to IBM a warrant (this "Warrant") to purchase the Warrant Shares at the Purchase Price. Capitalized terms not otherwise defined herein (including the Appendices hereto) have the meanings assigned thereto in the Master Alliance Agreement. This Warrant is subject to the applicable provisions of the Master Alliance Agreement.

1. Exercise and Expiration of Warrant.

(a) This Warrant is immediately exercisable at any time and from time to time on any Business Day on or after the date hereof. This Warrant will expire at the close of business on the fifth anniversary of the date hereof. "Exercise Period" shall mean the period of time between the date hereof and the expiration of this Warrant in accordance with the terms hereof.

(b) This Warrant may be exercised during the Exercise Period by the Holder, in whole or in part, by delivering this Warrant to the Company with payment of the Purchase Price in immediately available funds. In the event that this Warrant is not exercised in full immediately prior to the end of the Exercise Period and at such time the then-current Market Price of a share of the Common Stock is greater than the Purchase Price, this Warrant shall be deemed automatically exercised as to the remaining Warrant Shares at such time without the delivery of any written notice from the Holder and the Warrant Shares shall thereupon be issuable by the Company upon payment of the Purchase Price by the Holder to the Company.

(c) Upon exercise of this Warrant, the Company will issue to the Holder (i) a certificate or certificates for the number of full Warrant Shares to which the Holder shall be entitled upon such exercise plus the cash value of any fractional share to which the Holder would otherwise be entitled, and (ii) in

case such exercise is in part only, a new warrant or warrants in the form hereof representing the Warrant to purchase the remaining Warrant Shares.



(d) If applicable, in the opinion of counsel to the Company, any Warrant Shares issued upon exercise of this Warrant will bear any legend required by Applicable Law. At any time that any such legend is no longer required by Applicable Law, the Company shall, at the request of the Holder, exchange such legended Warrant Shares for Warrant Shares that do not bear such legend. In furtherance of the foregoing, any such Warrant Shares bearing a legend with respect to transferability thereof shall be so exchanged if the Holder certifies in writing to the Company that its request for such exchange was made to effect a transfer pursuant to (i) Rule 144 under the Securities Act or (ii) a registration statement that has been declared effective under the Securities Act.

(e) The Company and each Holder will furnish bank account and other information so that any payment to be made or received hereunder is made by bank wire transfer. Any such information may be changed by notice given as herein contemplated.

(f) Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the day on which this Warrant shall have been surrendered pursuant to Section 1(b) and other deliverables required pursuant to Section 1(b) shall have been provided; provided, however, that failure to surrender this Warrant or provide any such deliverables shall not impact the effectiveness of any exercise of this Warrant pursuant to the last sentence of Section 1(b).

2. Certain Agreements of the Company. The Company agrees as follows:

(a) Shares to be Fully Paid. All Warrant Shares will, upon issuance in accordance with the terms of this Warrant, be validly issued, fully paid, and nonassessable and free from all taxes, liens, claims and encumbrances.

(b) Authorization and Reservation of Shares. During the Exercise Period, the Company shall have duly authorized a sufficient number of shares of Common Stock, free from preemptive rights and from any other restrictions imposed by the Company without the consent of the Holder, to provide for the exercise in full of this Warrant. The Company shall at all times during the Exercise Period reserve and keep available out of such authorized but unissued shares of Common Stock such number of shares to provide for the exercise in full of this Warrant.

(c) Listing. In connection with the Holder's exercise of Registration Rights hereunder or any other sale of Warrant Shares, the Company shall use its reasonable best efforts to promptly secure, the listing of the shares of Common Stock issuable upon exercise of this Warrant upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed or become listed (subject to official notice of issuance upon exercise of this Warrant) and shall maintain such listing for so long as any other shares of Common Stock shall be so listed.



(d) Certain Actions Prohibited. The Company will not, by amendment of its charter or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed by it hereunder.

(e) Successors and Assigns. Except as expressly provided otherwise herein, this Warrant will be binding upon any entity succeeding to the Company by merger, consolidation, or acquisition of all or substantially all of the Company's assets.

(f) Blue Sky Laws. The Company shall, on or before the date of issuance of any Warrant Shares, use its reasonable best efforts to take such actions as the Company shall reasonably determine are necessary to qualify the Warrant Shares for, or obtain exemption for the Warrant Shares for, sale to the Holder of this Warrant upon the exercise hereof under applicable securities or "blue sky" laws of the states of the United States, and shall provide written evidence of any such action so taken to the Holder of this Warrant prior to such date; provided, however, that the Company shall not be required to qualify as a foreign corporation or file a general consent to service of process in any such jurisdiction.

(g) Rule 144 Reports. So long as, and at any time that, the Company is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company shall use its reasonable best efforts to take all actions reasonably necessary to enable the Holder to sell the Warrant Shares without registration under the Securities Act within the limitations of the exemptions provided by Rule 144 under the Securities Act, as such rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission, including using its use reasonable best efforts to file on a timely basis all reports required to be filed by the Exchange Act. Upon the request of the Holder, the Company shall deliver to the Holder a written statement as to whether it has complied with such requirements.

(h) The Holder acknowledges that during the Company's fiscal year 2006 and fiscal year 2007, the Company failed to make certain required filings with the Commission on a timely basis. While it is the intention of the Company to make all such filings on a timely basis and to maintain the listing thereof on a national securities exchange or automated quotation system so long as the Common Stock is eligible therefor, there can be no assurance that the Company will be able to do so. Notwithstanding any other provision hereof or of any other agreement between the Company and IBM, in no event will the Company have any liability to any Holder, including without limitation pursuant to Section 2(f) or 2(g) above, solely as a result of the failure to make such filings on a timely basis or to maintain such listing.

3. Antidilution Adjustments. The Purchase Price and the number of Warrant Shares may be adjusted from time to time as set forth in Appendix B.

4. Registration Rights. This Warrant shall have the Registration Rights set forth in Appendix C.

5. Mergers; Transfer of Assets; Liquidation. (a) If there shall occur any capital reorganization or reclassification of the Company's Common Stock (other than a subdivision or combination as provided for in paragraph (b) of Appendix B), or any consolidation or merger of the Company with or into another Person, or a transfer of all or substantially all of the assets of the Company to another Person (any such Person, a "Successor Company"), then, as part of any such reorganization, reclassification, consolidation, merger or transfer, as the case may be, lawful provision shall be made so that the Holder of this Warrant shall have the right thereafter to receive upon the exercise hereof the kind and amount of shares of stock or other securities or property which such Holder would have been entitled to receive if, immediately prior to any such reorganization, reclassification, consolidation, merger or transfer, as the case may be, such Holder had held the number of shares of Common Stock which were then purchasable upon the exercise of this Warrant. The provisions of this Section 5 shall similarly apply to any successive consolidation, merger or transfer of all or substantially all of the assets involving any Successor Company. In any such case, appropriate adjustment (as reasonably determined in good faith by the Board) shall be made in the application of the provisions set forth herein with respect to the rights and interests thereafter of the Holder of this Warrant, such that the provisions set forth herein shall thereafter be applicable, as nearly as is reasonably practicable, in relation to any shares of stock or other securities or property thereafter deliverable upon the exercise of this Warrant.

(b) In the event of the voluntary or involuntary dissolution, liquidation or winding-up of the Company, the Holder shall be entitled to receive, upon surrender of this Warrant, such cash distributions on an equal basis with the holders of Common Stock or other securities issuable upon exercise of this Warrant, as if the Warrant had been exercised immediately prior to such event, less the Purchase Price.

6. Transfer, Exchange, and Replacement

(a) Transferability. This Warrant shall not be transferable by the Holder other than to a Subsidiary of the Holder. After the date that is 31 days after the acquisition of any Warrant Shares pursuant to the exercise of this Warrant, such Warrant Shares shall be freely transferable in accordance with Applicable Law, including pursuant to Rule 144, pursuant to an effective registration statement under the Securities Act or pursuant to any transaction that is exempt from registration under the Securities Act.

(b) Warrant Exchangeable for Different Denominations. This Warrant is exchangeable, upon the surrender hereof by the Holder hereof at the office or agency of the Company referred to in Section 7 below, for new warrants of like tenor of different denominations representing in the aggregate the right to purchase the number of shares of Common Stock which may be purchased hereunder, each of such new warrants to represent the right to purchase such number of shares as shall be designated by the Holder hereof at the time of such surrender.

(c) Replacement of Warrant. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement or surety bond reasonably



satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver, in lieu thereof, a new Warrant of like tenor.

(d) Cancellation; Payment of Expenses. Upon the surrender of this Warrant in connection with any transfer, exchange, or replacement as provided in this Section 6, this Warrant shall be promptly canceled by the Company. The Company shall pay all taxes (other than securities transfer and income taxes) and all other expenses (other than legal expenses, if any, incurred by the Holder or transferees) payable in connection with the preparation, execution, and delivery of warrants pursuant to this Section 6. The Company shall indemnify and reimburse the Holder of this Warrant for all reasonable costs and reasonable expenses (including legal fees) incurred by such Holder in connection with any successful enforcement of its rights hereunder.

(e) Warrant Register. The Company shall maintain, at its principal executive offices (or such other office or agency of the Company as it may designate by notice to the Holder hereof), a register for this Warrant, in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

7. Notices. Any notices required or permitted to be given under the terms of this Warrant shall be delivered personally or by courier or by confirmed telecopy, and shall be effective upon receipt or refusal of receipt, if delivered personally or by courier, or by confirmed email or fax, in each case addressed to a party. The addresses for such communications shall be (a) with respect to IBM and ACI, the applicable addresses set forth in Section 12.14 of the Master Alliance Agreement and (b) with respect to any other Holder, at such address as such Holder shall have provided in writing to the Company, or at such other address as any Holder furnishes by notice given in accordance with this Section 7.

8. Miscellaneous.

(a) Amendments. Notwithstanding the provisions set forth in Section 12.02 of the Master Alliance Agreement, this Warrant and any provision hereof may only be amended by an instrument in writing signed by the Company and all Holders hereof.

(b) Rights of Holders. Holders of this Warrant are not entitled to (i) receive notice of or vote at any meeting of the stockholders of ACI, (ii) consent to any action of the stockholders of ACI or (iii) exercise any preemptive right, in each case solely by virtue of its status as a Holder of this Warrant.

(c) U.S. Dollars. All references in this Warrant to "dollars" or "$" shall mean the U.S. dollar.



(d) Fractional Shares. The Company shall not be required upon the exercise of this Warrant to issue any fractional shares, but shall make an adjustment therefor in cash on the basis of the then-current Market Price.

(e) Descriptive Headings. The descriptive headings of the several sections of this Warrant are inserted for purposes of reference only, and shall not affect the meaning or construction of any of the provisions hereof.

(f) Survival. The covenants made by the parties hereto shall survive the execution and delivery of this Agreement.



IN WITNESS WHEREOF, the undersigned have executed this Warrant as of the date first written above.

ACI WORLDWIDE, INC.

By: /s/ Philip G. Heasley
Name: Philip G. Heasley
Title: Chief Executive Officer

INTERNATIONAL BUSINESS MACHINES CORPORATION

By: /s/ Cosmo L. Nista
Name: Cosmo L. Nista
Title: Vice President Corporate Development, M&A



***APPENDIX A — DEFINITIONS***

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

"Commission" shall mean the U.S. Securities and Exchange Commission.

"Common Stock" shall mean the common stock, par value $0.005, of ACI.

"Company" shall have the meaning specified in the initial paragraph of the Warrant.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission promulgated thereunder.

"Exercise Period" shall have the meaning specified in Section 1(a) of the Warrant.

"Holder" shall have the meaning specified in the initial paragraph of the Warrant.

"IBM" shall have the meaning specified in the initial paragraph of the Warrant.

"Market Price" shall mean the following: (i) the average of the closing sale prices for the shares of Common Stock as reported on the principal trading exchange for the Common Stock (which, on the date of this Agreement, is the Nasdaq National Market) for the ten (10) consecutive trading days immediately preceding such date, or if no sale price is so reported on any day during such period, the average of the highest bid price and the lowest ask price at the end of such day, or (ii) if the foregoing does not apply, the last sale price of such security in the over-the-counter market on the pink sheets or bulletin board for such security on the last trading day immediately preceding such date, or if no sale price is so reported for such security, the average of the highest bid price and the lowest ask price for such security on the last trading day immediately preceding such date, or (iii) if market value cannot be calculated as of such date on any of the foregoing bases, the Market Price shall be the fair market value as of such date as reasonably determined by an investment banking firm selected by the Company and reasonably acceptable to the Holder, with the costs of the determination to be borne by the Company.

"Purchase Price" shall mean $27.50 per share of Common Stock, as may be adjusted from time to time pursuant to Appendix B.

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations of the Commission promulgated thereunder.

"Warrant" shall have the meaning specified in the initial paragraph of the Warrant.

"Warrant Shares" shall mean 1,427,035 shares of Common Stock, as may be adjusted from time to time pursuant to Appendix B.



***APPENDIX B — ANTIDILUTION PROVISIONS***

(a) Diluting Issuances.

(i) Special Definitions. For purposes of this Appendix B, the following definitions shall apply: (A) "Option" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities; (B) "Convertible Securities" shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock; and (C) "Additional Shares of Common Stock" shall mean all shares of Common Stock issued (or, pursuant to (a)(iii) below, deemed to be issued) by the Company after the date hereof other than shares of Common Stock issued upon exercise of (x) this Warrant or (y) the Warrant to purchase 1,427,035 shares of Common Stock at a price of $33.00 per share, granted by the Company to IBM on the date hereof.

(ii) No Adjustment of Purchase Price. No adjustments to the Purchase Price under this Appendix B shall be made unless the consideration per share (determined pursuant to (a)(v) below) for an Additional Share of Common Stock issued or deemed to be issued by the Company is less than the Market Price in effect on the date of, and immediately prior to, the issue of such Additional Shares of Common Stock. Notwithstanding anything to the contrary contained elsewhere in this Appendix B, no adjustment to the Purchase Price shall be made for Common Stock issued or deemed to be issued by the Company upon the exercise of Options that (1) were issued and outstanding as of the date hereof, (2) are issued after the date hereof pursuant to compensation plans approved by the shareholders of the Company and pursuant to which the consideration payable to the Company upon the exercise thereof is no less than the closing sale price (price for last trade) per share of Common Stock as reported on the principal trading exchange for the Common Stock or (3) are issued by the Company to all of the holders of its Common Stock and are concurrently issued to the Holder such that the Holder receives, with respect to any portion of this Warrant that is unexercised at such time, the same number of such Options as it would have received had this Warrant been fully exercised immediately prior to such distribution.

(iii) Issue of Securities Deemed Issue of Additional Shares of Common Stock. If the Company at any time or from time to time after the date hereof shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities (in each case other than in connection with the adoption of a shareholder rights plan by the Company), then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that Additional Shares of Common Stock shall not be deemed to have been issued unless the consideration per share (determined pursuant to (a)(v) below) of such Additional Shares of Common Stock would be less



than the Market Price in effect on the date of and immediately prior to such issue, or such record date, as the case may be, and provided, further, that, in any such case in which Additional Shares of Common Stock are deemed to be issued:

(A) No further adjustment in the Purchase Price shall be made upon the subsequent issue of Convertible Securities or shares of Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(B) If such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase in the consideration payable to the Company, upon the exercise, conversion or exchange thereof, the Purchase Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase becoming effective, be recomputed to reflect such increase insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities;

(C) Upon the expiration, maturity or termination of any unexercised Option or Convertible Security, as applicable, the Purchase Price shall be readjusted, and the Additional Shares of Common Stock deemed issued as the result of the original issue of such Option or Convertible Security shall not be deemed issued for the purposes of any subsequent adjustment of the Purchase Price;

(D) In the event of any change in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any Option or Convertible Security, including, but not limited to, a change resulting from the anti-dilution provisions thereof, the Purchase Price then in effect shall forthwith be readjusted to such Purchase Price as would have been obtained had the adjustment which was made upon the issuance of such Option or Convertible Security not exercised or converted prior to such change been made upon the basis of such change; and

(E) No readjustment pursuant to Clause (B) or (D) above shall have the effect of increasing the Purchase Price to an amount which exceeds the lower of (i) the Purchase Price on the original adjustment date, or (ii) the Purchase Price that would have resulted from any issuances of Additional Shares of Common Stock between the original adjustment date and such readjustment date.

(iv) Adjustment of Purchase Price Upon Issuance of Additional Shares of Common Stock. In the event the Company shall at any time after the date hereof issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to (a) (iii) above, but excluding shares issued as a dividend or distribution or upon a stock split or combination as provided in (b) below), without consideration or for a consideration per share less than the Market Price in effect on the date of and immediately prior to such issue, then and in such event, the Purchase Price shall be reduced, concurrently with such issue, to a price (calculated to the nearest cent) determined by multiplying such Purchase Price by a fraction, (A) the numerator of which shall be (1) the number of shares of Common Stock

outstanding immediately prior to such issue plus (2) the number of shares of Common Stock which the aggregate consideration received or to be received by the Company for the total number of Additional Shares of Common Stock so issued would purchase at such Purchase Price; and (B) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of such Additional Shares of Common Stock so issued; provided that, (i) for the purpose of this (a)(iv), all shares of Common Stock issuable upon exercise or conversion of Options or Convertible Securities outstanding immediately prior to such issue shall be deemed to be outstanding (other than shares excluded from the definition of "Additional Shares of Common Stock" by virtue of (a)(i)(D) above), and (ii) the number of shares of Common Stock deemed issuable upon conversion of such outstanding Options and Convertible Securities shall not give effect to any adjustments to the conversion price or conversion rate of such Options or Convertible Securities resulting from the issuance of Additional Shares of Common Stock that is the subject of this calculation; provided, further, that no adjustment to the Purchase Price shall be made pursuant to this Section (a)(iv) as a result of the issuance of Additional Shares of Common Stock pursuant to (x) a bona fide underwritten public offering or (y) any transaction referred to in Section 5 of the Warrant Agreement, or any other acquisition (whether by merger, consolidation, stock or asset purchase or other form of business combination) of any business (other than from an Affiliate of the Company) in an arms'-length transaction. See also paragraph (c) of this Appendix B ("Adjustment in Number of Warrant Shares").

(v) Adjustment of Purchase Price Upon Cash Distributions. In the event the Company shall at any time after the date hereof distribute to all holders of Common Stock (a) any dividend or other distribution (including any dividend or distribution made in connection with a consolidation or merger in which the Company is the continuing corporation) of cash (other than cash dividends declared and paid pursuant to a regular quarterly dividend policy in effect on the relevant date and consistent with corresponding policies of peer companies in the Company's industry) evidences of its indebtedness, shares of its capital stock or any other properties or securities or (b) any options, warrants or other rights to subscribe for, purchase, or which are convertible into, any of the foregoing, then and in such event, the Purchase Price shall be adjusted to a number determined by multiplying the Purchase Price immediately prior to the record date for any such dividend or distribution by a fraction, the numerator of which shall be the then-current Market Price of a share of the Common Stock on such record date less the sum of (x) the amount of cash, if any, distributed per share of Common Stock and (y) the then fair value (as determined in good faith by the Board) of the portion, if any, of the distribution applicable to one share of Common Stock consisting of evidences of indebtedness, shares of stock, securities, other property, warrants, options or subscription or purchase rights, and the denominator of which shall be such Market Price. Such adjustments shall be made, and shall only become effective, whenever any dividend or distribution to which this Section (a)(v) applies is made; provided, however, that the Company is not required to make an adjustment pursuant to this Section (a)(v) if at the time of such distribution the Company makes the same distribution to the Holder as it makes to holders of Common Stock pro rata based on the number of shares of Common Stock for which such Warrants are exercisable (whether or not currently exercisable). No adjustment shall be made pursuant to this Section (a)(v) which shall have the effect of decreasing the number of shares of Common Stock issuable upon exercise of each Warrant or



increasing the Purchase Price. See also paragraph (c) of this Appendix B ("Adjustment in Number of Warrant Shares").

(vi) Determination of Consideration. For purposes of section (a), the consideration received by the Company for the issue of any Additional Shares of Common Stock shall be computed as follows:

(A) Cash and Property: Such consideration shall (I) insofar as it consists of cash, be computed at the aggregate of cash received by the Company, excluding amounts paid or payable for accrued interest or accrued dividends; (II) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board; and (III) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Company for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (I) and (II) above, as determined in good faith by the Board.

(B) Options and Convertible Securities. The consideration per share received by the Company for Additional Shares of Common Stock deemed to have been issued pursuant to (a)(iii) above, relating to Options and Convertible Securities, shall be determined by dividing (x) the total amount, if any, received or receivable by the Company as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Company upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by (y) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

(vii) Multiple Closing Dates. In the event the Company shall issue on more than one date Additional Shares of Common Stock which are comprised of shares of the same series or class of capital stock, and such issuance dates occur within a period of no more than 60 days, then the Purchase Price shall be adjusted only once on account of such issuances, with such adjustment to occur upon the final such issuance (but not later than ten days prior to the end of the Exercise Period) and to give effect to all such issuances as if they occurred on the date of the final such issuance.

(b) Recapitalizations. If outstanding shares of the Company's Common Stock shall be subdivided or reclassified into a greater number of shares or a dividend or other distribution in Common Stock shall be paid in respect of Common Stock, the Purchase Price in effect immediately prior to such subdivision or at the record date of such dividend shall simultaneously with the effectiveness of such subdivision or immediately after the record date of such dividend be proportionately reduced. If outstanding shares of Common Stock shall be combined or

reclassified into a smaller number of shares, the Purchase Price in effect immediately prior to such combination shall, simultaneously with the effectiveness of such combination, be proportionately increased. See also paragraph (c) of this Appendix B ("Adjustment in Number of Warrant Shares").

(c) Adjustment in Number of Warrant Shares. When any adjustment is required to be made in the Purchase Price, the number of Warrant Shares purchasable upon the exercise of this Warrant shall be changed to the number determined by dividing (i) an amount equal to the number of shares issuable upon the exercise of this Warrant immediately prior to such adjustment, multiplied by the Purchase Price in effect immediately prior to such adjustment, by (ii) the Purchase Price in effect immediately after such adjustment.

(d) Certificate of Adjustment. When any adjustment is required to be made pursuant to this Appendix B, the Company shall promptly mail to the Holder a certificate setting forth the Purchase Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment. Such certificate shall also set forth the kind and amount of stock or other securities or property into which this Warrant shall be exercisable following such adjustment.

(e) Other Notices. In case at any time following the date hereof and prior to the expiration of this Warrant or the exercise in full of this Warrant:

(i) the Company shall declare any dividend upon the Common Stock payable in shares of stock of any class or make any other distribution to the holders of the Common Stock;

(ii) the Company shall offer for subscription pro rata to the holders of the Common Stock any additional shares of stock of any class or other rights;

(iii) there shall be any capital reorganization of the Company, or reclassification of the Common Stock, or consolidation or merger of the Company with or into, or sale of all or substantially all of its assets to, another corporation or entity; or

(iv) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company;

then, in each such case, the Company shall give to the Holder (a) notice of the date on which the books of the Company shall close or a record shall be taken for determining the holders of Common Stock entitled to receive any such dividend, distribution, or subscription rights or for determining the holders of Common Stock entitled to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up and (b) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, notice of the date (or, if not then known, a reasonable estimate thereof by the Company) when the same shall take place. Such notice shall also specify the date on which the holders of Common Stock shall be entitled to receive such dividend, distribution, or subscription rights or to exchange their Common Stock for stock or other securities or property



deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, or winding-up, as the case may be. Such notice shall be given at least ten (10) Business Days prior to the record date or the date on which the Company's books are closed in respect thereto. Failure to give any such notice or any defect therein shall not affect the validity of the proceedings referred to in clauses (i), (ii), (iii) and (iv) above.

(f) Certain Events. If any event occurs as to which the foregoing provisions of this Appendix B are not strictly applicable or, if strictly applicable, would not, in the good faith judgment of the Board, fairly and adequately protect the purchase rights of the Warrants in accordance with the essential intent and principles of such provisions, then the Board shall make such adjustments in the application of such provisions, in accordance with such essential intent and principles, as shall be reasonably necessary, in the good faith opinion of the Board, to protect such purchase rights as aforesaid, but in no event shall any such adjustment have the effect of increasing the Purchase Price or decreasing the number of shares of Common Stock issuable upon exercise of the Warrants.

(g) Minimum Adjustment. The adjustments required by this Appendix B shall be made whenever and as often as any specified event requiring an adjustment shall occur, except that no adjustment of the Purchase Price or the number of shares of Common Stock issuable upon exercise of the Warrants that would otherwise be required shall be made unless and until such adjustment either by itself or with other adjustments not previously made increases or decreases by at least 1% the Purchase Price or the number of shares of Common Stock issuable upon exercise of the Warrants immediately prior to the making of such adjustment. Any adjustment representing a change of less than such minimum amount shall be carried forward and made as soon as such adjustment, together with other adjustments required by this Appendix B and not previously made, would result in a minimum adjustment. In computing adjustments under this Appendix B, fractional interests in Common Stock shall be taken into account to the nearest one-hundredth of a share.



***APPENDIX C — REGISTRATION RIGHTS***

Section 1. Shelf Registration. (a) The Company shall file on or prior to January 15, 2009, and shall use its reasonable best efforts to cause to be declared effective as soon as practicable after the filing thereof, and shall in any event use its reasonable best efforts to cause to be declared effective on or prior to March 15, 2009, a shelf registration statement on an appropriate form under the Securities Act relating to the offer and sale of any Warrant Shares that have been issued pursuant to the Warrants by the Holder from time to time in accordance with the methods of distribution elected by the Holder (excluding underwritten public offerings) and set forth in such shelf registration statement (hereafter, a "Shelf Registration Statement").

(b) The Company shall use its reasonable best efforts to keep the Shelf Registration Statement continuously effective, supplemented and amended as required by the Securities Act until the earlier of (i) such time as all Warrant Shares registered thereby have been sold thereunder and (ii) receipt by the Holder of an opinion of counsel (which may be counsel to the Company) reasonably satisfactory to the Holder to the effect that all Warrant Shares can be sold without restriction under the Securities Act.

Section 2. Effective Registration Statement. A registration pursuant to Section 1 above will not be deemed to have been effected unless the Shelf Registration Statement relating thereto has become effective under the Securities Act. During any 365-day consecutive period, the Company may from time to time delay the filing or suspend the effectiveness of any Shelf Registration Statement, or without suspending such effectiveness, instruct the Holder not to sell Warrant Shares included in any such Shelf Registration Statement, for up to ninety (90) days (any such period, a "Suspension Period"), whether or not consecutive (provided that, in no event shall any such Suspension Period be for a period of time longer than forty-five (45) consecutive days), in any such 365-day period if the Company shall have determined upon the advice of counsel (which may be counsel to the Company) reasonably satisfactory to the Holder that the Company would be required by law to disclose any actions taken or proposed to be taken by the Company in good faith and for valid business reasons, including without limitation the acquisition or divestiture of assets, which disclosure would have a material adverse effect on the Company or such actions (including the timing thereof) (a "Suspension Period"), by providing the Holder with written notice of such Suspension Period. The Company shall use its reasonable best efforts to provide such notice as soon as practicable and in any event prior to the commencement of such a Suspension Period.

Section 3. Piggyback Registration Rights. (a) If the Company proposes at any time or from time to time to sell shares of any Common Stock for its own account or the account of any other Person in an underwritten public offering pursuant to a registration statement under the Securities Act, the Company shall give written notice to the Holder, as soon as practicable but in no event fewer than fifteen (15) days before the anticipated filing of a registration statement (a "Piggyback Registration Statement") related to such underwritten public offering (other than a registration statement on Form S-4 or Form S-8 under the Securities Act or any successor forms thereto), of such proposed underwritten public offering to the Holder, and such notice shall offer to the Holder the opportunity to include in such underwritten public offering



such number of Warrant Shares as such Holder may request. At any time during the period in which the Warrants are exercisable, within ten (10) days after receipt of such notice, the Holder shall have the right by notifying the Company in writing to require the Company to include in the registration statement relating to such underwritten public offering such number of Warrant Shares as such Holder may request.

The Company shall use its reasonable best efforts to cause the managing underwriters of such underwritten public offering to permit the Warrant Shares requested to be included in a Piggyback Registration Statement to be included on the same terms and conditions as any Common Stock or any other security included therein and to permit the sale or other disposition of such Warrant Shares in accordance with the intended method of distribution thereof.

The Holder shall have the right to withdraw its request for inclusion of its Warrant Shares in any such registration statement pursuant to this Section 3 by giving written notice to the Company of its request to withdraw prior to the time that the Company has printed for public distribution a preliminary prospectus with respect to such registration statement, provided, however, that a Withdrawal Election shall be irrevocable and, after making a Withdrawal Election (as defined below), the Holder shall no longer have any right to include Warrant Shares in the registration as to which such Withdrawal Election was made.

(b) Notwithstanding Section 3(a), if at any time the managing underwriters of such underwritten public offering shall advise the Company that, in their opinion, the total number of securities proposed to be sold in such underwritten public offering (including the total number of Warrant Shares that the Holder has requested to be sold in such underwritten public offering and the total number of Common Stock requested to be included by any other selling shareholder entitled to sell shares in such underwritten public offering) exceeds the maximum number of such securities which the managing underwriters believe may be sold without materially adversely affecting the success of such underwriting public offering, including the price at which such shares can be sold, then the Company will be required to include in such underwritten public offering only that number of securities which the managing underwriters believe may be sold without causing such adverse effect in the following order: (i) all the securities that the Company proposes to sell in such underwritten public offering, and all the securities that are proposed to be sold by any holder or group of holders of Common Stock who are participating in connection with a demand registration right (other than by exercising so-called "piggyback" registration rights) that existed on the date hereof, if such underwritten public offering is being made pursuant to such demand (in the priority agreed upon between the Company and the holders of such demand registration rights) and (ii) shares of the Holder and all other securities that are proposed to be sold by any holder of capital stock of the Company exercising a so-called "piggyback" registration right on a pro rata basis in an aggregate number which is equal to the difference between the maximum number of securities to be included in such underwritten public offering as determined by the managing underwriters and the number of shares to be sold in such underwritten public offering pursuant to clause (i) above. The Company will have the right to postpone or withdraw any registration statement relating to an underwritten public offering described under this Section 3 without obligation to the Holder; provided that, no such postponement or withdrawal may be effected in the event that any sales of securities under



such registration statement have been consummated. The Company may withdraw a Piggyback Registration Statement at any time or the Company may elect to delay or abandon the proposed registration, in each case subject to the proviso in the immediately preceding sentence, without any liability to the Holder; provided, however, that the Company shall give prompt written notice thereof to the Security Holder.

If, as a result of the provisions of this Section 3(b), the Holder shall not be entitled to include all Warrant Shares in a registration under this Section 3 that the Holder has requested to be included, the Holder may elect to withdraw its request to include Warrant Shares in such a registration (a "Withdrawal Election") by giving prompt written notice to the Company of such Withdrawal Election prior to the time that the Company has printed a preliminary prospectus for public distribution with respect to such registration statement; provided, however, that a Withdrawal Election shall be irrevocable and, after making a Withdrawal Election, the Holder shall no longer have any right to include Warrant Shares in the registration as to which such Withdrawal Election was made.

Section 4. Compliance. Notwithstanding any other provisions hereof, the Company will use reasonable best efforts to ensure that (i) any Shelf Registration Statement, any Piggyback Registration Statement and any amendment thereto and any prospectus forming part thereof and any supplement thereof complies in all material respects with the Securities Act and the rules and regulations thereunder, (ii) any Shelf Registration Statement, any Piggyback Registration Statement and any amendment thereto does not, when it becomes effective, contain an untrue statement of a material fact or omit to state a

material fact required to be stated therein or necessary to make the statements therein not misleading and (iii) any prospectus forming part of any Shelf Registration Statement, any Piggyback Registration Statement and any supplement to such prospectus, does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements, in the light of the circumstances under which they were made, not misleading; provided, however, nothing herein shall create any obligation or liability for the Company relating to any information incorporated or included in such registration statement, prospectus, supplement or amendment in reliance upon and in conformity with written information provided to the Company by or on behalf of any seller or underwriter specifically for use therein.

Section 5. Expenses. The Company will pay all expenses incident to the Company's performance of its obligations under this Appendix C, including, without limitation, registration and filing fees, fees and expenses of compliance with securities or blue sky laws, printing expenses, internal expenses (including all salary and expenses of its officers and employees performing legal or accounting duties), reasonable fees and disbursements of one counsel reasonably acceptable to the Company designated by the Holder and fees and disbursements of any independent public accountants. Notwithstanding the foregoing, the parties hereto hereby agree that any underwriting discounts and selling commissions shall be payable by the Holder.

Section 6. Public Sale by the Company and Others. If any sale of Warrant Shares shall be in connection with an underwritten public offering, the Company agrees to the extent required by the managing underwriter for such offering, not to, and to use reasonable best efforts



to cause its officers and directors not to, effect any sale or distribution of any equity securities of the Company, or any convertible securities or options of the Company (including a sale pursuant to Regulation D under the Securities Act), or contract to sell, pledge or otherwise dispose of any such securities, or announce any such transaction (other than sales registered on Form S-8), during the ten (10) days prior to, and during the 90-day period beginning on, the effective date of the registration statement relating to such underwritten public offering (other than in such public offering).

Section 7. Registration Procedures. In connection with any Shelf Registration Statement and, to the extent applicable, any Piggyback Registration Statement, the Company shall:

(a) (i) not less than five (5) Business Days before filing with the Commission a registration statement or prospectus or any amendments or supplements thereto furnish to one counsel selected by the Holder copies of all such documents proposed to be filed (including all documents incorporated by reference therein and not otherwise available on EDGAR, if applicable), which documents will be subject to the review of such counsel, and (ii) use its reasonable best efforts to reflect in each such document, when so filed with the Commission, such comments as such counsel reasonably may propose;

(b) promptly notify the Holder of the Warrant Shares covered by each registration statement of (A) any stop order issued or threatened by the Commission and take all reasonable actions required to prevent the entry of such stop order or to remove it if entered; (B) when a registration statement and any amendment thereto has been filed with the Commission and when the registration statement or any post-effective amendment thereto has become effective; (C) of any request by the Commission for any amendment or supplement to the registration statement or the prospectus or for additional information; and (D) of the receipt by the Company of any notification with respect to the suspension of the qualification of the securities included therein for sale in any jurisdiction or the initiation of any proceeding for such purpose;

(c) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective for the period specified in Section 1 or Section 3 above, as applicable, and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement during such period in accordance with the intended methods of disposition by the sellers thereof set forth in such registration statement;

(d) furnish without charge to the Holder of the Warrant Shares covered by such registration statement and each other person reasonably required to deliver a prospectus such number of copies of such registration statement, each amendment and supplement thereto (in each case including all exhibits thereto) and the prospectus included in such registration (including each preliminary prospectus and supplement thereto), in conformity with the requirements of the Securities Act, and such other documents as the Holder may reasonably request in order to facilitate the disposition of the Warrant Shares,



owned by the Holder; and the Company consents to the proper use (in accordance with law and this Attachment C) of the prospectus included in such registration statement and any amendment or supplement thereto by the Holder in connection with any exercise, offer or sale of a Warrant Share covered thereby;

(e) take such actions as the Company shall reasonably determine are necessary to qualify the Warrant Shares, or obtain exemption for the Warrant Shares, under applicable securities or "blue sky" laws of the states of the United States, and take all other actions, and do all other things which may be reasonably necessary or advisable to enable the Holder to consummate the disposition in such jurisdictions of the Warrant Shares owned by the Holder; provided, however, that the Company shall not be required to qualify as a foreign corporation or file a general consent to service of process in any such jurisdiction;

(f) promptly notify the Holder of the Warrant Shares, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event if, as a result of such event, the prospectus or the relevant registration statement contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein (in the case of the prospectus), in the light of the circumstances under which they were made, not misleading, and promptly prepare and furnish to the Holder a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of such Warrant Shares, such prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(g) in the case of any Shelf Registration Statement, enter into such customary agreements and take all such other actions as the Holder reasonably requests in order to expedite or facilitate the disposition of such Warrant Shares, including customary indemnification;

(h) cause the senior management of the Company to participate in customary road shows in respect of any underwritten public offerings of Warrant Shares;

(i) upon reasonable notice and during normal business hours make available for inspection by the Holder covered by such registration statement, and any attorney, accountant or other agent retained by the Holder (collectively, the "Inspectors"), all pertinent financial and other records, pertinent corporate documents and properties of the Company and its subsidiaries as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause its and its subsidiaries' officers, directors and employees to supply all information and respond to all inquiries reasonably requested by any such Inspector in connection with such registration statement (collectively, "Information"). Any of the Information which the Company determines in good faith to be confidential, and of which determination the Inspectors are so notified, shall not be used by such seller or such Inspector for any purpose other than the exercise of such due diligence responsibility and shall not be disclosed by the Inspectors unless (i) the



disclosure of such Information is necessary to avoid or correct a material misstatement or omission in the registration statement, (ii) the release of such Information is ordered pursuant to a subpoena or other order from a court or governmental agency or authority of competent jurisdiction, (iii) such Information has been made generally available to the public through no breach of the nondisclosure obligations of the Inspectors or their Affiliates or (iv) such disclosure is required to be made under Applicable Law; and

(j) otherwise use its reasonable best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering a period of at least 12 months, beginning with the first month after the effective date of the registration statement (as the term "effective date" is defined in Rule 158(c) under the Securities Act), which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder.

As a condition to participating in any registration, the Company may require the Holder to furnish to the Company such information regarding the Holder and the distribution of such Warrant Shares that is necessary for the filing of the Shelf Registration Statement or Piggyback Registration Statement as the Company may from time to time reasonably request in writing.

The Holder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in subdivision (f) hereof, the Holder will immediately discontinue disposition of Warrant Shares pursuant to the registration statement covering such Warrant Shares until the Holder's receipt of the copies of the supplemented or amended prospectus contemplated by subdivision (f) hereof, and, if so directed by the Company, the Holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies, then in the Holder's possession of the prospectus covering such Warrant Shares current at the time of receipt of such notice.

Section 8. Indemnification. (a) Indemnification by the Company. In the event of any registration of any securities of the Company under the Securities Act, the Company shall indemnify and hold harmless the Holder, its Affiliates, its officers, directors, employees, representatives and agents, and each person, if any, who controls the Holder within the meaning of the Securities Act or the Exchange Act (collectively referred to for purposes of this Section 8 and Section 9 as a "Security Holder") from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof (including, without limitation, any loss, claim, damage, liability or action relating to purchases and sales of such securities), to which that Security Holder may become subject, whether commenced or threatened, under the Securities Act, the Exchange Act, any other Federal or state statutory law or regulation, at common law or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any registration statement under which such securities were registered under the Securities Act or any prospectus forming part thereof or in any amendment or supplement thereto or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were



made, not misleading, and shall reimburse each Security Holder promptly upon demand for any expenses (including reasonable attorneys' fees of one counsel for all Security Holders) reasonably incurred by that Security Holder in connection with investigating or defending or preparing to defend against or appearing as a third party witness in connection with any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement in or omission or alleged omission from any of such documents in reliance upon and in conformity with any information ("Holders' Information") included therein in reliance upon or in conformity with written information furnished to the Company by or on behalf of any Security Holder specifically for use therein. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of any Security Holder and shall survive the transfer of such securities by such Security Holder; provided further, however, that with respect to any untrue statement or alleged untrue statement in or omission or alleged omission from any related preliminary prospectus, the foregoing indemnity agreement shall not inure to the benefit of any Security Holder from whom the Person asserting any such loss, claim, damage, liability or action of or with respect to such Security Holder results from the fact that both (A) a copy of the final prospectus was not sent or given to such Person at or prior to the written confirmation of the sale of such securities to such Person and such copy was legally required to be sent or given to such Person and (B) the untrue statement or alleged untrue statement or omission or alleged omission was remedied in the final prospectus unless, in either case, such failure to deliver the final prospectus was a result of non-compliance by the Company with Section 7(c).

(b) Indemnification by the Security Holders. Each Security Holder shall indemnify and hold harmless the Company, its Affiliates, their respective officers, directors, employees, representatives and agents, and each person, if any, who controls any such Person within the meaning of the Securities Act or the Exchange Act (collectively referred to for purposes of this Section 8 and Section 9 as "Company Indemnified Parties"), from and against any loss, damage or liability, joint or several, or any action in respect thereof (including, without limitation, any loss, claim, damage, liability or action relating to purchases and sales of such securities), to which Company Indemnified Parties may become subject, whether

commenced or threatened, under the Securities Act, the Exchange Act, any other Federal or state statutory law or regulation, at common law or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any registration statement under which such Warrant Shares were registered under the Securities Act or any prospectus forming part thereof or in any amendment or supplement thereto or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with any Holders' Information furnished to the Company by such Security Holder, and shall reimburse the Company Indemnified Parties upon demand for any legal or other expenses reasonably incurred by the Company Indemnified Parties in connection with investigating



or defending or preparing to defend against or appearing as a third party witness in connection with any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that no such Security Holder shall be liable for any indemnity claims hereunder in excess of the amount of net proceeds received by such Security Holder from the sale of such Warrant Shares pursuant to such registration statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Company Indemnified Parties or any of the Security Holders and shall survive the transfer of such Warrant Shares by such Security Holder.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of any claim or the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party pursuant to Section 8(a) or 8(b), notify the indemnifying party in writing of the claim or the commencement of that action; provided, however, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 8 except to the extent that it has been actually prejudiced (through the forfeiture of substantive rights or defenses) by such failure; provided, further, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 8. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 8 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof; provided, however, that the indemnified party (or parties, if more than one) shall collectively have the right to employ one counsel of its or their own in any such action, but the fees, expenses and other charges of such one counsel for the indemnified party will be at the expense of such indemnified party unless (1) the employment of counsel by the indemnified party has been authorized in writing by the indemnifying party, (2) the indemnified party has reasonably concluded (based upon advice of counsel to the indemnified party) that there may be legal defenses available to it or other indemnified parties that are different from or in addition to those available to the indemnifying party, (3) a conflict or potential conflict exists (based upon advice of counsel to the indemnified party) between the indemnified party and the indemnifying party (in which case the indemnifying party will not have the right to direct the defense of such action on behalf of the indemnified party) or (4) the indemnifying party has not in fact employed counsel reasonably satisfactory to the indemnified party to assume the defense of such action within a reasonable time after receiving notice of the commencement of the action, in each of which cases the reasonable fees, disbursements and other charges of such counsel will be at the expense of the indemnifying party or parties. It is agreed that the indemnifying party or parties shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the



reasonable fees, disbursements and other charges of more than one separate firm of attorneys (in addition to any local counsel) at any one time for all such indemnified party or parties. Each indemnified party, as a condition of the indemnity agreements contained in Sections 8(a) and 8(b), shall use all reasonable efforts to cooperate with the indemnifying party in the defense of any such action or claim. No indemnifying party shall be liable for any settlement of any such action effected without its written consent, but if settled with its written consent or if there be a final judgment for the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability by reason of such settlement or judgment. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could reasonably have been a party and indemnity could reasonably have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of (i) such indemnified party from all liability on claims that are the subject matter of such proceeding and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

Section 9. Contribution. If the indemnification provided for in Section 8 is unavailable or insufficient to hold harmless an indemnified party under Section 8(a) or 8(b), then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability, or action in respect thereof, (i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company from the offering and sale of such securities, on the one hand, and a Security Holder with respect to the sale by such Security Holder of such securities, on the other, or (ii) if the allocation provided by clause (i) above is not permitted by Applicable Law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, on the one hand, and such Security Holder, on the other, with respect to the statements or omissions that resulted in such loss, claim, damage or liability, or action in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company, on the one hand, and a Security Holder, on the other, with respect to such offering and such sale shall be deemed to be in the same proportion as the total net proceeds from the offering of the Warrant Shares (before deducting expenses) received by or on behalf of the Company, on the one hand, bear to the total proceeds received by such Security Holder with respect to its sale of such Warrant Shares, on the other. The relative fault shall be determined by reference to among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to the Company or information supplied by the Company, on the one hand, or to any Holders' Information supplied by such Holder, on the other, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The parties hereto agree that it would not be just and equitable if contributions pursuant to this Section 9 were to be determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, damage or liability, or action in respect thereof, referred to above in this Section 9 shall be

deemed to include, for purposes of this Section 9, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending or preparing to defend any such action or claim. Notwithstanding the provisions of this Section 9, an indemnifying party that is a Security Holder of securities, shall not be required to contribute any amount in excess of the amount by which the total price at which such securities sold by such indemnifying party to any purchaser exceeds the amount of any damages which such indemnifying party has otherwise paid or become liable to pay by reason of any untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

Section 10. Enforcement of Registration Rights. Notwithstanding anything to the contrary contained herein or in the Master Alliance Agreement, the Company hereby agrees that each Holder of Warrant Shares shall be entitled to specific performance of the registration rights hereunder, and that the Company shall pay any reasonable expenses, including without limitation reasonable attorneys' fees, in connection with any successful enforcement by any Holder of such specific performance.

Section 11. Assignment of Registration Rights. Any of the rights of the Holders hereunder, including the right to have the Company register the Warrant Shares, may be assigned by each Holder to any transferee of all or any portion of the Warrant Shares if such assignment is otherwise permitted hereunder and (i) the Holder agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company after such assignment, (ii) the Company is furnished with written notice of (A) the name and address of such transferee or assignee, and (B) the securities with respect to which such registration rights are being transferred or assigned, (iii) following such transfer or assignment, the further disposition of such securities by the transferee or assignee is restricted under the Securities Act and applicable state securities laws, and (iv) such transfer shall have been made in accordance with the applicable requirements of this Warrant. The transferee, by acceptance of the transfer of any registration rights hereunder, acknowledges that it takes such rights subject to the terms and conditions hereof. Upon any transfer of less than all of its Warrant Shares, the Holder retains registration rights with respect to Warrant Shares held by it.

**Exhibit 31.01**

**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: February 19, 2008

/s/ PHILIP G. HEASLEY
Philip G. Heasley
*President, Chief Executive Officer and Director*

**Exhibit 31.02**

**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: February 19, 2008

/s/ HENRY C. LYONS
Henry C. Lyons
*Senior Vice President and Chief Financial Officer*

**Exhibit 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**

In connection with the quarterly report of ACI Worldwide, Inc. (the "Company") on Form 10-Q for the quarter ended December 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: February 19, 2008

/s/ PHILIP G. HEASLEY
Philip G. Heasley
*President, Chief Executive Officer and Director*

**Exhibit 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**

In connection with the quarterly report of ACI Worldwide, Inc. (the "Company") on Form 10-Q for the quarter ended December 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: February 19, 2008

/s/ HENRY C. LYONS
Henry C. Lyons
*Senior Vice President and Chief Financial Officer*