

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2001

Commission File Number 0-25346

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

47-0772104  
(I.R.S. employer  
identification no.)

224 South 108th Avenue  
Omaha, Nebraska 68154  
(Address of principal executive offices,  
including zip code)

(402) 334-5101  
(Registrant's telephone number,  
including area code)

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

Yes  No

The number of shares of the issuer's Class A Common Stock, par value \$.005  
per share, outstanding as of August 10, 2001 was 36,680,831 (including 654,434  
Exchangeable Shares of TSA Exchangeco Limited which can be exchanged on a  
one-for-one basis for shares of the issuer's Class A Common Stock and 23,004  
options to purchase shares of the issuer's Class A Common Stock at an exercise  
price of one cent per share issued to MessagingDirect Ltd. shareholders).

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TRANSACTION SYSTEMS ARCHITECTS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(unaudited and in thousands)

	June 30, 2001	September 30, 2000
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 28,101	\$ 23,400
Marketable securities	4,114	8,106
Billed receivables, net of allowances of \$9,519 and \$5,941, respectively	48,843	63,556
Accrued receivables	46,919	51,659
Prepaid income taxes	8,079	2,710
Deferred income taxes	21,344	11,208
Other	11,180	13,134
	-----	-----
Total current assets	168,580	173,773
Property and equipment, net	15,471	19,614
Software, net	31,382	26,757
Intangible assets, net	86,084	65,254
Long-term accrued receivables	29,174	27,018
Investments and notes receivable	1,309	6,146
Deferred income taxes	3,631	2,958
Other	5,721	8,632
	-----	-----
Total assets	\$ 341,352	\$ 330,152
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 16,699	\$ 18,396
Accounts payable	13,045	16,023
Accrued employee compensation	8,542	7,472
Accrued liabilities	24,685	20,003
Deferred revenue	42,747	43,373
	-----	-----
Total current liabilities	105,718	105,267
Long-term debt	392	532
Long-term deferred revenue	11,394	13,993
Other	1,083	-
	-----	-----
Total liabilities	118,587	119,792
	-----	-----
Stockholders' equity:		
Class A Common Stock	183	165
Additional paid-in capital	221,989	170,946
Retained earnings	45,563	85,033
Treasury stock, at cost	(35,258)	(35,258)
Accumulated other comprehensive income	(9,712)	(10,526)
	-----	-----
Total stockholders' equity	222,765	210,360
	-----	-----
Total liabilities and stockholders' equity	\$ 341,352	\$ 330,152
	=====	=====

See notes to condensed consolidated financial statements.

TRANSACTION SYSTEMS ARCHITECTS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(unaudited and in thousands, except per share amounts)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2000	2001	2000
<b>Revenues:</b>				
Software license fees	\$ 41,716	\$ 46,498	\$ 129,342	\$ 128,259
Maintenance fees	18,387	17,340	51,772	51,229
Services	13,568	15,064	43,685	41,920
	-----	-----	-----	-----
Total revenues	73,671	78,902	224,799	221,408
	-----	-----	-----	-----
<b>Expenses:</b>				
Cost of software license fees	10,723	11,851	33,547	33,760
Cost of maintenance and services	20,311	17,952	57,033	52,008
Research and development	10,854	10,125	31,645	28,553
Selling and marketing	20,483	18,837	58,425	54,602
General and administrative	26,513	16,185	58,690	45,982
Amortization of goodwill and purchased intangibles	4,293	2,035	10,073	5,970
	-----	-----	-----	-----
Total expenses	93,177	76,985	249,413	220,875
	-----	-----	-----	-----
Operating income (loss)	(19,506)	1,917	(24,614)	533
	-----	-----	-----	-----
<b>Other income (expense):</b>				
Interest income	1,725	985	3,265	2,649
Interest expense	(349)	(178)	(1,717)	(313)
Other	(914)	(1,065)	(1,629)	(933)
Non-recurring items	(7,406)	-	(21,717)	-
	-----	-----	-----	-----
Total other income (expense)	(6,944)	(258)	(21,798)	1,403
	-----	-----	-----	-----
Income (loss) before income taxes	(26,450)	1,659	(46,412)	1,936
Income tax benefit (provision)	4,935	(644)	6,941	(753)
	-----	-----	-----	-----
Net income (loss)	\$ (21,515)	\$ 1,015	\$ (39,471)	\$ 1,183
	=====	=====	=====	=====
<b>Earnings per share information:</b>				
Weighted average shares outstanding:				
Basic	35,086	31,621	33,765	31,789
	=====	=====	=====	=====
Diluted	35,086	31,875	33,765	32,201
	=====	=====	=====	=====
Earnings per share:				
Basic	\$ (0.61)	\$ 0.03	\$ (1.17)	\$ 0.04
	=====	=====	=====	=====
Diluted	\$ (0.61)	\$ 0.03	\$ (1.17)	\$ 0.04
	=====	=====	=====	=====

See notes to condensed consolidated financial statements.

TRANSACTION SYSTEMS ARCHITECTS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited and in thousands)

	Nine Months Ended June 30,	
	2001	2000
Cash flows from operating activities:		
Net income (loss)	\$ (39,471)	\$ 1,183
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	6,066	6,438
Amortization	22,169	15,301
Non-recurring items	21,717	-
Changes in operating assets and liabilities:		
Billed and accrued receivables	18,817	(11,297)
Other current and noncurrent assets	(11,280)	(19,190)
Accounts payable	(4,132)	7,929
Deferred revenue	(4,019)	3,219
Other current liabilities	4,319	(11,892)
	14,186	(8,309)
Net cash provided by (used in) operating activities	14,186	(8,309)
Cash flows from investing activities:		
Purchases of property and equipment	(2,461)	(4,926)
Additions to software	(4,405)	(8,295)
Acquisition of businesses, net of cash received	255	(7,959)
Additions to investments and notes receivable	(772)	(4,222)
Note receivable from executive officer	(1,000)	-
	(8,383)	(25,402)
Net cash used in investing activities	(8,383)	(25,402)
Cash flows from financing activities:		
Proceeds from issuance of Class A Common Stock	1,140	1,406
Proceeds from exercise of stock options	223	2,005
Purchases of Class A Common Stock	-	(21,008)
Net borrowings on lines of credit	(2,925)	10,000
Payments of long-term debt	706	(495)
	(856)	(8,092)
Net cash used in financing activities	(856)	(8,092)
Effect of exchange rate fluctuations on cash	(246)	822
Increase (decrease) in cash and cash equivalents	4,701	(40,981)
Cash and cash equivalents, beginning of period	23,400	70,482
Cash and cash equivalents, end of period	\$ 28,101	\$ 29,501

See notes to condensed consolidated financial statements.

TRANSACTION SYSTEMS ARCHITECTS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Consolidated Financial Statements

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

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The condensed consolidated financial statements at June 30, 2001, and for the three and nine months ended June 30, 2001 and 2000, are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2000. The results of operations for the three and nine months ended June 30, 2001 are not necessarily indicative of the results for the entire fiscal year ending September 30, 2001.

2. Revenue Recognition

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

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

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

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

Licensees are typically given two payment options. Under the first payment option, the licensee can pay a combination of an Initial License Fee ("ILF"), where the licensee pays a portion of the total software license fees at the beginning of the software license term, and a Monthly License Fee ("MLF"), where the licensee pays the remaining portion of the software license fees over the software license term. In certain arrangements, the customer is contractually committed to making MLF payments for a minimum number of months. If the customer decides to terminate the arrangement prior to paying the minimum MLF payments, the remaining minimum MLF payments become due and payable. Under the second

payment option, the Company offers a Paid-Up-Front ("PUF") payment option, whereby the total software license fees are due at the beginning of the software license term. Under either payment option, the Company is not obligated to refund any payments received from the customer. In the combination ILF and MLF payment option, the Company recognizes the ILF portion of the software license fees upon delivery of the software, assuming all other revenue recognition criteria were met. In the PUF payment option, the Company recognizes the total software license fees upon delivery of the software, assuming all other revenue recognition criteria were met.

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

The Company has concluded that for certain software arrangements where the customer is contractually committed to make MLF payments that extend beyond twelve months, the "fixed or determinable" presumption has been overcome and software license fees revenue should be recognized upon meeting the other SOP 97-2 revenue recognition criteria. In making this determination, the Company considered the characteristics of the software product, the customer purchasing the software, the similarity of the economics of the software arrangements with previous software arrangements and the actual history of successfully collecting under the original terms without providing concessions. The software license fees recognized under these arrangements are referred to as "Recognized-Up-Front MLFs." The present value of Recognized-Up-Front MLFs, net of third party royalties, recognized during the three months ended June 30, 2001 and 2000 totaled approximately \$6.4 million and \$11.2 million, respectively. The present value of Recognized-Up-Front MLFs, net of third party royalties, recognized during the nine months ended June 30, 2001 and 2000 totaled approximately \$18.3 million and \$21.7 million, respectively. The discount rates used to determine the present value of these software license fees, representing the Company's incremental borrowing rates, ranged from 9.25% to 11.00% during the nine months ended June 30, 2001, and from 10.25% to 11.00% during the nine months ended June 30, 2000. Recognized-Up-Front MLFs that have been recognized in software license fees revenues by the Company, but not yet billed, are reflected in accrued receivables in the accompanying condensed consolidated balance sheets.

### 3. Corporate Restructuring and Other Charges

During the third quarter of fiscal 2001, the Company closed or significantly reduced the size of certain product development organizations and geographic sales offices. The Company also made executive management changes and transferred its 70% ownership in Hospital Health Plan Corporation ("HHPC") to the minority shareholder. These actions resulted in a charge of \$21.8 million reflected in the accompanying statements of income for the three and nine months ended June 30, 2001. The allocation of this amount is as follows: \$2.9 million in cost of maintenance and services, \$0.3 million in research and development, \$0.3 million in selling and marketing, \$11.1 million in general and administrative, and \$7.4 million as a non-recurring item, offset by \$0.2 million in interest income. Charges associated with the corporate restructuring and included in operating expenses were as follows (in thousands):

Asset impairments.....	\$3,125
Lease obligations.....	1,738
Termination benefits.....	4,768
Other restructuring charges.....	4,935
	-----
	\$14,566
	=====

Asset impairments relate to the write-off of property and equipment in vacated office facilities and other-than-temporary declines in the fair value of certain notes receivables. Lease obligations relate to vacated corporate office facilities. Where possible, the Company is actively seeking third parties to purchase abandoned property and equipment or sub-lease vacated office facilities. Amounts expensed represent estimates of undiscounted future cash outflows, offset by anticipated third-party purchases or sub-leases. Termination benefits are comprised of severance-related payments for all employees terminated in connection with the operational restructuring and the partial forgiveness of a note receivable from an executive officer. Termination benefits do not include any amounts for employment-related services prior to termination. Other restructuring charges include settlement costs and allowance provisions for customers under related contractual obligations. At June 30, 2001, the accrued liability associated with the restructuring and other charges described above consisted of \$0.9 million in lease obligations, \$2.5 million in termination benefits and \$1.2 million in other restructuring charges.

The Company transferred its 70% ownership in HHPC to the minority shareholder. As a result of the transfer, the Company recorded a non-recurring charge of \$7.4 million, related to the Company's carrying value in HHPC, in the three months ended June 30, 2001.

The Company continually evaluates its investment holdings and long-lived assets for evidence of impairment. During the three months ended December 31, 2000, after considering current market conditions for technology companies and specific information regarding those companies in which the Company has an ownership interest, the Company determined that the declines in market value for certain of its investment holdings were "other than temporary" and a charge to earnings for the declines in market value was required. Therefore, the Company recorded a non-cash charge of \$12.4 million in the three months ended December 31, 2000. In addition, due to unfavorable market conditions in the fourth quarter of fiscal 2000, the Company postponed its planned initial public offering ("IPO") of its wholly-owned subsidiary, Insession Technologies, Inc. Due to the time period which had elapsed without proceeding with this transaction and continuing uncertainty in market conditions, the Company expended costs associated with the planned IPO totaling \$1.9 million in the three months ended December 31, 2000.

#### 4. Acquisition

In January 2001, the Company acquired all of the outstanding securities of MessagingDirect Ltd. ("MDL"). MDL provides software applications to facilitate the secure delivery and e-processing of electronic statements and bills. Shareholders of MDL received 3,357,351 shares of Class A Common Stock (or Exchangeable Shares of TSA Exchangeco Limited which can be converted on a one-for-one basis for shares of TSA Class A Common Stock or options to purchase shares of TSA Class A Common Stock) with a fair market value at the time of purchase of approximately \$49.5 million. The share exchange was accounted for using the purchase method of accounting. An independent valuation of MDL was performed and used as an aid in determining the fair market value of each identifiable intangible asset. Accordingly, the excess purchase price over the estimated fair value of each identifiable tangible and intangible asset acquired was allocated to goodwill, which is being amortized using the straight-line method over five years. Preliminarily, approximately \$38.3 million of the purchase price was allocated to goodwill and \$11.8 million to software.

#### 5. Common Stock and Earnings Per Share

Earnings per share ("EPS") has been computed in accordance with SFAS No. 128, "Earnings Per Share." Basic EPS is calculated by dividing net income available to common stockholders (the numerator) by the weighted average number of common shares outstanding during the period (the denominator). Diluted EPS is computed by dividing net income available to common stockholders, adjusted for the effect of any outstanding dilutive securities (the numerator), by the weighted average number of common shares outstanding, adjusted for the dilutive effect of outstanding dilutive securities (the denominator).

For the three and nine months ended June 30, 2001, basic and diluted EPS are the same, as any outstanding dilutive securities were antidilutive due to the net loss in both periods. If the Company had reflected net income for the three and nine months ended June 30, 2001, weighted average shares from stock options of 3,739,083 and 3,786,830, respectively, would have been excluded from the computation of diluted EPS because the exercise prices of the stock options were greater than the average market price of the Company's common shares. The differences between the basic and diluted EPS denominators for the three and nine months ended June 30, 2000, which amounted to approximately 254,000 and 412,000 shares, respectively, were due to the dilutive effect of the Company's outstanding stock options using the treasury stock method. For the three and nine months ended June 30, 2000, weighted average shares from stock options of 3,668,875 and 2,064,457, respectively, have been excluded from the computation of diluted EPS because the exercise prices of the stock options were greater than the average market price of the Company's common shares.

Exchangeable Shares and options received by shareholders of MDL (see Note 4) that have not yet been converted into TSA Class A Common Stock are included in Class A Common Stock for presentation purposes on the June 30, 2001 condensed consolidated balance sheet, and are included in common shares outstanding for EPS computations for the three and nine months ended June 30, 2001.

#### 6. Comprehensive Income

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2000	2001	2000
Net income (loss)	\$ (21,515)	\$ 1,015	\$ (39,471)	\$ 1,183
Other comprehensive income (loss):				
Foreign currency translation adjustments	1,327	(7,072)	(3,246)	3,695
Unrealized investment holding gain, net of reclassification adjustment of \$8,052 in the nine months ended June 30, 2001	1,415	(1,038)	4,060	(2,050)
Comprehensive income (loss)	\$ (18,773)	\$ (7,095)	\$ (38,657)	\$ 2,828

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

Foreign Currency Translation Adjustments	Unrealized Investment Holding Gain (Loss)	Accumulated Other Comprehensive Loss
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Balance, September 30, 2000	\$ (4,723)	\$ (5,803)	\$ (10,526)
Fiscal 2001 year-to-date activity	(3,246)	(3,992)	(7,238)
Reclassification adjustment for loss included in net income (loss)	-	8,052	8,052
Balance, June 30, 2001	\$ (7,969)	\$ (1,743)	\$ (9,712)

## 7. Line-of-Credit Facilities

As of June 30, 2001, the Company has a \$25.0 million bank line-of-credit with a large United States bank secured by certain trade receivables of TSA. The line-of-credit agreement provides that the Company must satisfy certain specified EBITDAR, working capital and minimum tangible net worth requirements, as defined, and places restrictions on the Company's ability to, among other things, sell assets, incur debt, pay dividends, participate in mergers and make investments or guarantees. The Company is in compliance with all debt covenants as of June 30, 2001. The Company also has a line-of-credit with a large foreign bank in the amount of 3.0 million British Pounds, which translates to approximately \$4.2 million. The foreign line requires the Company to maintain minimum tangible net worth within the Company's wholly-owned subsidiary, ACI Worldwide (EMEA) Ltd.

Interest on the U.S. line-of-credit accrues at an annual rate equal to either the bank's prime rate less .25% or the LIBOR rate plus 1.75% and is payable monthly. Interest on the foreign line-of-credit accrues at an annual rate of 1% above the bank's "base rate." During the three and nine months ended June 30, 2001, the Company recorded interest expense of \$0.3 million and \$1.3 million, respectively, related to its line-of-credit facilities. The carrying amounts of the Company's line-of-credit facilities approximate fair value due to their variable interest rates. Current borrowings outstanding as of June 30, 2001 totaled approximately \$15.0 million. The U.S. line-of-credit expires in June 2002 and the foreign bank line-of-credit expires in August 2002.

## 8. Segment Information

In fiscal 2000, the Company reorganized its business into four business units or segments: Consumer e-Payments, Electronic Business Infrastructure, Corporate Banking e-Payments and Health Payment Systems. Prior period segment information has been restated to reflect these reorganizations. The Company's chief operating decision makers review business unit financial information, presented on a consolidated basis, accompanied by disaggregated information about revenues and operating income by business unit. The Company does not track assets by business unit.

Consumer e-Payments products represent the Company's largest product line and include its most mature and well-established applications which are used primarily by financial institutions, retailers and e-payment processors. Its products are used to route and process transactions for automated teller machine networks; process transactions from traditional point of sale devices, wireless devices and the Internet; handle PC and phone banking transactions; control fraud and money laundering; process electronic benefit transfer transactions; authorize checks; establish frequent shopper programs; automate settlement, card management and claims processing; and issue and manage multi-functional applications on smart cards. Electronic Business Infrastructure products facilitate communication, data movement, monitoring of systems and business process automation across computing systems, involving mainframes, distributed computing networks and the Internet. Corporate Banking e-Payments products offer high-value payments processing, bulk/recurring payments processing, wire room processing, global messaging, integration payments management and continuous link settlement processing. Health Payment Systems products allow large corporations and health-care payment processors to automate claims eligibility determination, claims capture and claims payments.

No single customer accounted for more than 10% of the Company's consolidated revenue during the three and nine months ended June 30, 2001 and 2000. The following are revenues and operating income (loss) for the Company's business unit segments for the three and nine months ended June 30, 2001 and 2000 (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2000	2001	2000
<b>Revenues:</b>				
Consumer e-Payments	\$ 53,205	\$ 58,399	\$ 167,533	\$ 160,062
Electronic Business Infrastructure	10,557	10,421	30,701	32,268
Corporate Banking e-Payments	8,855	9,114	23,113	26,364
Health Payment Systems	1,054	968	3,452	2,714
	<u>\$ 73,671</u>	<u>\$ 78,902</u>	<u>\$ 224,799</u>	<u>\$ 221,408</u>
<b>Operating loss:</b>				
Consumer e-Payments	\$ (17,443)	\$ 1,366	\$ (15,272)	\$ (5,267)
Electronic Business Infrastructure	(1,261)	1,016	(2,318)	4,693
Corporate Banking e-Payments	(298)	208	(4,932)	1,804
Health Payment Systems	(504)	(673)	(2,092)	(697)
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>



\$ (19,506) \$ 1,917

\$ (24,614) \$ 533

During the third quarter of fiscal 2001, the Company transferred its 70% ownership in HHPC, which had been included in the Health Payment Systems business unit, to its minority shareholder. The remaining portion of the Health Payment Systems business unit consists of a facilities management services organization that will be integrated into the Consumer e-Payments business unit in the quarter ended September 30, 2001

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2000	2001	2000
<b>Revenues:</b>				
United States	\$ 30,899	\$ 35,735	\$ 94,832	\$ 101,797
Americas - other	10,488	9,811	30,730	26,987
<b>Total Americas</b>	<b>41,387</b>	<b>45,546</b>	<b>125,562</b>	<b>128,784</b>
EMEA	23,550	26,386	75,333	71,192
Asia/Pacific	8,734	6,970	23,904	21,432
	<b>\$ 73,671</b>	<b>\$ 78,902</b>	<b>\$ 224,799</b>	<b>\$ 221,408</b>
<b>Long-lived assets:</b>				
United States		\$ 83,806	\$ 107,925	
Americas - other		25,145	5,337	
<b>Total Americas</b>		<b>108,951</b>	<b>113,262</b>	
EMEA		30,081	11,659	
Asia/Pacific		935	1,482	
		<b>\$ 139,967</b>	<b>\$ 126,403</b>	

The Company recently discontinued pursuing strategic alternatives for the Electronic Business Infrastructure and Corporate Banking e-Payments business units as the Company believes the value of the products and services it offers in these business units exceeds current technology company market valuations.

#### 9. Accounting Pronouncements Issued But Not Yet Effective

In December 1999, the Securities and Exchange Commission (the "SEC") released Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB No. 101 requires, among other things, that license and other up-front fees be recognized over the term of the agreement, unless the fees are in exchange for products delivered or services performed that represent the culmination of a separate earnings process. The Company is required to be in conformity with the provisions of SAB No. 101 no later than the fourth quarter of fiscal 2001. The Company does not expect this change in accounting principle to have a material effect on the Company's financial position or results of operations.

In June 2001, the Financial Accounting Standards Board (the "FASB") released Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," which addresses financial accounting and reporting for business combinations. SFAS No. 141 supersedes APB Opinion No. 16, "Business Combinations," and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." SFAS No. 141 requires that all business combinations are to be accounted for using one method, the purchase method, and eliminates the pooling-of-interests method for all business combinations initiated after June 30, 2001. The adoption of SFAS No. 141 is not expected to have a material effect on the Company's financial position or results of operations.

In June 2001, the FASB released SFAS No. 142, "Goodwill and Other Intangible Assets," which addresses financial accounting and reporting for acquired goodwill and other intangible assets, and supersedes APB Opinion No. 17, "Intangible Assets." SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. It also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. Under SFAS No. 142, goodwill and some intangible assets will no longer be amortized. The Company is required to be in conformity with the provisions of SFAS No. 142 no later than the fiscal year beginning October 1, 2002; however, the Company is permitted to apply the provisions of SFAS No.

142 during its fiscal year beginning October 1, 2001. The Company is currently reviewing SFAS No. 142 and has not determined the impact of its adoption on the Company's financial position or results of operations.

TRANSACTION SYSTEMS ARCHITECTS, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

Overview

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

Business Segments

The Company's products and services are organized into four business units - Consumer e-Payments, Electronic Business Infrastructure, Corporate Banking e-Payments and Health Payment Systems. Products in the Consumer e-Payments business unit represent the Company's largest product line and include its most mature and well-established applications. Products and services offered by this business unit, except community banking products, are marketed and supported through ACI Worldwide Inc ("ACI"), a wholly-owned subsidiary of the Company. ACI sells and supports the products and services through three distribution networks: the Americas, Europe/Middle East/Africa ("EMEA") and Asia/Pacific. Each distribution network primarily has its own sales force and supplements this with reseller and/or distributor networks. The community banking products are marketed and supported by Regency Systems, Inc., a wholly-owned subsidiary of the Company. Products and services offered by the other three business units are marketed and supported primarily through their own sales and support organizations. The following table sets forth total revenues and operating income (loss) for the Company's four business unit segments for the periods indicated (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001	2000	2001	2000
<b>Revenues:</b>				
Consumer e-Payments	\$ 53,205	\$ 58,399	\$ 167,533	\$ 160,062
Electronic Business Infrastructure	10,557	10,421	30,701	32,268
Corporate Banking e-Payments	8,855	9,114	23,113	26,364
Health Payment Systems	1,054	968	3,452	2,714
	-----	-----	-----	-----
	\$ 73,671	\$ 78,902	\$ 224,799	\$ 221,408
	=====	=====	=====	=====
<b>Operating loss:</b>				
Consumer e-Payments	\$ (17,443)	\$ 1,366	\$ (15,272)	\$ (5,267)
Electronic Business Infrastructure	(1,261)	1,016	(2,318)	4,693
Corporate Banking e-Payments	(298)	208	(4,932)	1,804
Health Payment Systems	(504)	(673)	(2,092)	(697)
	-----	-----	-----	-----
	\$ (19,506)	\$ 1,917	\$ (24,614)	\$ 533
	=====	=====	=====	=====

The Company recently discontinued pursuing strategic alternatives for the Electronic Business Infrastructure and Corporate Banking e-Payments business units as the Company believes the value of the products and services it offers in these business units exceeds current technology company market valuations. During the third quarter of fiscal 2001, the Company transferred its 70% ownership in Hospital Health Plan Corporation ("HHPC") to its minority shareholder. HHPC had been included in the Company's Health Payment Systems business unit. The remaining portion of the Health Payment Systems business unit consists of a facilities management services organization that will be integrated into the Consumer e-Payments business unit in the quarter ended September 30, 2001.

Backlog

The following table sets forth the Company's recurring and non-recurring revenue backlog, by business unit, at each balance sheet date (in thousands):

	Recurring Revenue Backlog		Non-recurring Revenue Backlog	
	June 30, 2001	Sept. 30, 2000	June 30, 2001	Sept. 30, 2000
Consumer e-Payments	\$ 97,900	\$ 101,100	\$ 33,300	\$ 39,100
Electronic Business Infrastructure	17,500	19,200	3,800	2,100
Corporate Banking e-Payments	17,000	16,100	12,500	12,900

## Health Payment Systems

	1,800	2,800	2,100	2,300
	\$ 134,200	\$ 139,200	\$ 51,700	\$ 56,400

The Company defines recurring revenue backlog to be all monthly license fees, maintenance fees and facilities management fees specified in executed contracts to the extent that the Company contemplates recognition of the related revenue within one year. The Company includes in its non-recurring revenue backlog all fees (other than recurring) specified in executed contracts to the extent that the Company contemplates recognition of the related revenue within one year. There can be no assurance that contracts included in recurring or non-recurring revenue backlog will actually generate the specified revenues or that the actual revenues will be generated within the one-year period.

## Results of Operations

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

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2001		2000		2001		2000	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenues:								
ILFs and PUFs	\$ 23,219	31.5 %	\$ 20,949	26.5 %	\$ 73,740	32.8 %	\$ 63,271	28.6 %
MLFs (other than Recognized-Up-Front MLFs)	12,048	16.4	14,339	18.2	37,266	16.6	43,246	19.6
Recognized-Up-Front MLFs	6,449	8.7	11,210	14.2	18,336	8.2	21,742	9.8
Software license fees	41,716	56.6	46,498	58.9	129,342	57.6	128,259	58.0
Maintenance fees	18,387	25.0	17,340	22.0	51,772	23.0	51,229	23.1
Services	13,568	18.4	15,064	19.1	43,685	19.4	41,920	18.9
Total revenues	73,671	100.0	78,902	100.0	224,799	100.0	221,408	100.0
Expenses:								
Cost of software license fees	10,723	14.6	11,851	15.0	33,547	14.9	33,760	15.2
Cost of maintenance and services	20,311	27.6	17,952	22.8	57,033	25.4	52,008	23.5
Research and development	10,854	14.7	10,125	12.8	31,645	14.1	28,553	12.9
Selling and marketing	20,483	27.8	18,837	23.9	58,425	26.0	54,602	24.7
General and administrative	26,513	36.0	16,185	20.5	58,690	26.1	45,982	20.8
Amortization of goodwill and purchased intangibles	4,293	5.8	2,035	2.6	10,073	4.5	5,970	2.7
Total expenses	93,177	126.5	76,985	97.6	249,413	111.0	220,875	99.8
Operating income (loss)	(19,506)	(26.5)	1,917	2.4	(24,614)	(11.0)	533	0.2
Other income (expense):								
Interest income	1,725	2.3	985	1.2	3,265	1.5	2,649	1.1
Interest expense	(349)	(0.5)	(178)	(0.2)	(1,717)	(0.8)	(313)	(0.1)
Other	(914)	(1.2)	(1,065)	(1.3)	(1,629)	(0.7)	(933)	(0.4)
Non-recurring items	(7,406)	(10.0)	-	-	(21,717)	(9.7)	-	-
Total other income (expense)	(6,944)	(9.4)	(258)	(0.3)	(21,798)	(9.7)	1,403	0.6
Income (loss) before income taxes	(26,450)	(35.9)	1,659	2.1	(46,412)	(20.7)	1,936	0.8
Income tax benefit (provision)	4,935	6.7	(644)	(0.8)	6,941	3.1	(753)	(0.3)
Net income (loss)	\$ (21,515)	(29.2)%	\$ 1,015	1.3 %	\$ (39,471)	(17.6)%	\$ 1,183	0.5 %

During the third quarter of fiscal 2001, the Company closed or significantly reduced the size of certain product development organizations and geographic sales offices. The Company also made executive management changes and transferred its 70% ownership in HHPC to the minority shareholder. These actions resulted in a charge of \$21.8 million reflected in the above results of operations for the three and nine months ended June 30, 2001. The allocation of this amount is as follows: \$2.9 million in cost of maintenance and services, \$0.3 million in research and development, \$0.3 million in selling and marketing, \$11.1 million in general and administrative, and \$7.4 million as a non-recurring item, offset by \$0.2 million in interest income.

Revenues. Total revenues for the third quarter of fiscal 2001 decreased 6.6%, or \$5.2 million, from the comparable period in fiscal 2000. Total revenues for the first nine months of fiscal 2001 increased \$3.4 million, or 1.5%, over the first nine months of fiscal 2000. The three-month decrease is the result of a \$4.8 million, or 10.3%, decrease in software license fees revenue and a

decrease of \$1.5 million, or 9.9%, decrease in services revenue offset by a \$1.1 million, or 6.0%, increase in maintenance fees revenue. The nine-month increase is the result of a \$1.1 million, or 0.8%, increase in software license fees revenue, a \$1.8 million, or 4.2%, increase in services revenue and a \$0.5 million, or 1.1%, increase in maintenance fees revenue.

During the first quarter of fiscal 2000, the Company's large bank and merchant customers and potential new customers, in effect, locked down their systems in preparation for the Year 2000. This Year 2000 lock-down had a negative impact on the Company's Consumer e-Payments software license fees and services revenues due to the less than expected demand by customers and potential new customers to upgrade and enhance their current systems. In addition, since the Year 2000 cutover, the Company has found its customers increasingly scrutinizing their information technology purchases, which has led to further delays in software and services purchases. The Company believes overall demand for its products and services is increasing at a gradual pace. However, the Company believes that customer demand for its products and services will be slow to return to growth levels experienced prior to fiscal 2000.

The decrease in software license fees and services revenue for the third quarter fiscal 2001 is primarily the result of a decreased demand for the Company's Consumer e-Payments products. In fiscal 2001, the Company changed its sales compensation plans for its Consumer e-Payments sales force to emphasize PUF contracts for both customer renewals and new customers rather than emphasizing ILF/MLF contracts. This change resulted in an increase in PUF revenue and a decrease in MLF revenue for the third quarter and the first nine months of fiscal 2001.

Maintenance fees revenue decreased in the first quarter of fiscal 2001 due to a decrease in customer demand for the Company's enhanced maintenance support. During the second and third quarters of fiscal 2001, demand for the Company's enhanced maintenance support returned to normal levels.

The decrease in services revenue for the third quarter of fiscal 2001 is primarily the result of a decreased demand for technical and project management services, which is primarily the result of a decrease in the sale of the Company's Consumer e-Payments products.

Expenses. Total operating expenses for the third quarter of fiscal 2001 increased \$1.6 million, or 2.1% (excluding \$14.6 million of restructuring and other charges), over the comparable period of fiscal 2000. Total operating expenses for the first nine months of fiscal 2001 increased \$14.0 million, or 6.3% (excluding \$14.6 million of restructuring and other charges), over the first nine months of fiscal 2000. Amortization of goodwill and purchased intangibles has increased between fiscal years related to the acquisitions of WorkPoint Systems, Inc. in April 2000, Hospital Health Plan Corporation in May 2000 and MessagingDirect Ltd. in January 2001. Other changes in operating expense line items are discussed below.

Cost of software license fees for the third quarter of fiscal 2001 decreased \$1.2 million, or 9.9%, as compared to the third quarter of fiscal 2000. This decrease was due primarily to a decrease in royalties owed to the owners of third-party products resulting in decreases in third-party product sales volumes and a decrease in the royalty rate for one third-party product. Cost of software license fees for the first nine months of fiscal 2001 was comparable to the first nine months of fiscal 2000.

Cost of maintenance and services for the third quarter of fiscal 2001 decreased \$0.5 million, or 2.5% (excluding \$2.9 million of restructuring and other charges), as compared to the third quarter of fiscal 2000. For the first nine months of fiscal 2001, cost of maintenance and services increased \$2.2 million, or 4.3% (excluding \$2.9 million of restructuring and other charges), over the comparable period of fiscal 2000. This increase was the result of an increase in personnel-related expenses primarily related to an EMEA Smart Card services project.

Research and development ("R&D") costs for the third quarter of fiscal 2001 increased \$0.4 million, or 3.8% (excluding \$0.3 million of restructuring and other charges), over the comparable period in fiscal 2000. For the first nine months of fiscal 2000, R&D costs increased \$2.8 million, or 9.6% (excluding \$0.3 million of restructuring and other charges), over the comparable period of fiscal 2000. R&D consists primarily of compensation and related costs for R&D employees and contractors. R&D costs as a percentage of total revenues for the three and nine months of fiscal 2001 were 14.7% and 14.1%, respectively, as compared to 12.8% and 12.9%, respectively, for comparable periods of fiscal 2000. The Company capitalizes costs related to certain internally-developed software when the resulting products reach technological feasibility. Software development costs capitalized in the first nine months of fiscal 2001 and 2000 totaled approximately \$3.2 million and \$6.2 million, respectively.

Selling and marketing costs for the third quarter of fiscal 2001 increased \$1.4 million, or 7.4% (excluding \$0.3 million of restructuring and other charges), over the comparable period in fiscal 2000. For the first nine months of fiscal 2001, selling and marketing costs increased \$3.6 million, or 6.6% (excluding \$0.3 million of restructuring and other charges), over the comparable period of fiscal 2000. The increase for the three and nine months of fiscal 2001 is due to an increase in sales personnel and marketing activities in each of the four business units.

General and administrative costs for the third quarter of fiscal 2001 decreased \$0.8 million, or 4.9% (excluding \$11.1 million of restructuring and other charges), as compared to the third quarter of fiscal 2000. For the first nine months of fiscal 2001, general and administrative costs increased \$1.6 million, or 3.5% (excluding \$11.1 million of restructuring and other charges), over the comparable period of fiscal 2000. The increase for the first nine months of fiscal 2001 is attributable to an increase in bad debts expense and occupancy costs, offset by a decrease in personnel-related expenses. The

decrease in personnel-related expenses is due to the consolidation of the Company's Consumer Banking, Electronic Commerce and Internet Banking operating units into the Consumer e-Payments business unit during the fourth quarter of fiscal 2000.

Other Income and Expenses. The increase in interest expense in fiscal 2001 is due to an increase in borrowings on the Company's line-of-credit facilities. Other expenses resulted primarily from foreign currency translation losses recognized by the Company.

During the third quarter of fiscal 2001, the Company transferred its 70% ownership in HHPC to the minority shareholder. As a result of the transfer, the Company recorded a non-recurring charge of \$7.4 million in the three months ended June 30, 2001 related to the Company's carrying value in HHPC. During the first quarter of fiscal 2001, after considering current market conditions for technology companies and specific information regarding those companies in which the Company has an ownership interest, the Company determined that the declines in market value for certain of its investment holdings were "other than temporary" and a charge to earnings of \$12.4 million for the declines in market value was required. The Company also expensed costs associated with the withdrawn IPO of Insession Technologies, Inc. totaling \$1.9 million in the first quarter of fiscal 2001. These charges are reflected as non-recurring items under other expenses.

Income Taxes. The effective tax rate for the first nine months of fiscal 2001 was approximately 15% as compared to 41% for all of fiscal 2000. The effective tax rate for the first nine months of fiscal 2001 was less than that of the comparable period for fiscal 2000 primarily due to non-deductible amortization expense associated with acquisitions accounted for as purchases and non-recognition of tax benefits for operating losses in certain foreign locations.

As of June 30, 2001, the Company has deferred tax assets of \$36.2 million and deferred tax liabilities of \$2.3 million. Each quarter, the Company evaluates its historical operating results as well as its projections for the future to determine the realizability of the deferred tax assets. This analysis indicated that \$25.0 million of the net deferred tax assets were more likely than not to be realized. Accordingly, the Company has a valuation allowance of \$8.9 million as of June 30, 2001. The Company intends to analyze the realizability of the net deferred tax assets at each future reporting period. Such analysis may indicate that the realization of various deferred tax benefits is more likely than not and, therefore, the valuation reserve may be adjusted accordingly.

#### Liquidity and Capital Resources

As of June 30, 2001, the Company's principal sources of liquidity consisted of \$28.1 million in cash and cash equivalents, and available bank lines-of-credit. The Company has a \$25.0 million bank line-of-credit with a large United States bank secured by certain trade receivables of TSA. The line-of-credit agreement provides that the Company must satisfy certain specified EBITDAR, working capital and minimum tangible net worth requirements, as defined, and places restrictions on the Company's ability to, among other things, sell assets, incur debt, pay dividends, participate in mergers and make investments or guarantees. The Company is in compliance with all debt covenants as of June 30, 2001. The Company also has a line-of-credit with a large foreign bank in the amount of 3.0 million British Pounds, which translates to approximately \$4.2 million. The foreign line requires the Company to maintain minimum tangible net worth within the Company's wholly-owned subsidiary, ACI Worldwide (EMEA) Ltd. As of June 30, 2001, outstanding borrowings totaled \$15.0 million. The remaining \$14.2 million is available to the Company for future borrowings.

The Company's net cash flows provided by operating activities for the first nine months of fiscal 2001 amounted to \$14.2 million as compared to \$8.3 million used in operating activities during the first nine months of fiscal 2000. The improvement in operating cash flows in the first nine months of fiscal 2001 as compared to the same period of fiscal 2000 was primarily due to a decrease in billed and accrued receivables, which is due in part to the Company's emphasis on PUF contracts rather than ILF/MLF contracts.

A contributor to the Company's cash management program is the factoring of accrued receivables, whereby an interest in Company receivables is transferred on a non-recourse basis to third-party financial institutions in exchange for cash. During the first nine months of fiscal 2001 and 2000, the Company generated operating cash flows from the factoring of accrued receivables of \$17.0 million and \$19.6 million, respectively.

The Company's net cash flows used in investing activities totaled \$8.4 million and \$25.4 million during the first nine months of fiscal 2001 and 2000, respectively. The decrease in cash used in investing activities was due to a decrease in acquisition-related expenditures, and decreased purchases of software, property and equipment, offset by an additional advance during the first quarter of fiscal 2001 in the amount of \$1.0 million to the Company's former CEO as part of his employment and incentive compensation package. The acquisition of business amount in fiscal 2000 consists of the final payment of \$3.1 million related to the acquisition of Insession Inc.

The Company's net cash flows used in financing activities was \$0.9 million and \$8.1 million for the first nine months of fiscal 2001 and 2000, respectively. During the first nine months of fiscal 2001, the Company had net payments on its bank line-of-credit facilities of \$2.9 million as compared to net borrowings of \$10.0 million during the comparable period of fiscal 2000. Also during the first nine months of fiscal 2000, pursuant to a stock repurchase program approved by the Company's Board of Directors, the Company acquired 1,000,300 shares at an average cost of \$21.00 per share, totaling approximately \$21.0 million. The Company used cash flow from operations to fund the common

stock repurchases.

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

#### Forward-Looking Statements

The statements in this report regarding projected results are preliminary and "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, this report contains other forward-looking statements including statements regarding the Company's or third parties' expectations, predictions, views, opportunities, plans, strategies, beliefs and statements of similar effect. The forward-looking statements in this report are subject to a variety of risks and uncertainties. Actual results could differ materially. Factors that could cause actual results to differ include but are not limited to the following:

- o The corporate divestiture strategy is subject to numerous factors, including market conditions and perception, demand for the other businesses by potential investors or potential acquirers, personnel, tax, business, general economic conditions, viability of businesses as stand-alone operations, and other factors that could affect the Company's decisions and ability to separate businesses, to divest, raise capital, or implement other alternatives for such businesses, and to implement other aspects of the Company's corporate strategy. There can be no assurance that the Company will implement any aspect of the corporate strategy or that if implemented the strategy will be successful.
- o The Year 2000 lock-down has interrupted the Company's normal sales cycle and therefore is likely to have a negative impact on the Company's revenues and net income for the remainder of fiscal 2001 and beyond. The Company also believes customer demand for system upgrades and enhancements will be slow to return to normal growth levels, as many of the Company's customers upgraded and enhanced their systems prior to the Year 2000. There can be no assurance that the Company's growth rates will return to historical levels.
- o The acquisition of MessagingDirect is subject to numerous risks, including the following: (i) MessagingDirect is in a highly competitive industry, (ii) MessagingDirect does not have a significant market presence, significant revenues, or widespread acceptance or prolonged use of its products, (iii) MessagingDirect has not been profitable, (iv) the electronic statement presentation and electronic bill presentment and payment markets may not achieve the predicted growth rates, (v) MessagingDirect's products, personnel, and operations may be difficult to combine with those of the Company, the products may not be accepted by the Company's customer base, and there will be significant integration costs of combining the businesses, and (vi) the acquisition will have a dilutive impact on earnings per share and amortization of intangible assets will have an adverse effect on earnings.
- o The Company is subject to risks of conducting international operations including difficulties in staffing and management, reliance on independent distributors, fluctuations in foreign currency exchange rates, compliance with foreign regulatory requirements, variability of foreign economic conditions, and changing restrictions imposed by U.S. export laws.
- o The Company will continue to derive a majority of its total revenues from licensing its BASE24 family of software products and providing services and maintenance related to those products. Any reduction in demand for, or increase in competition with respect to, BASE24 products would have a material adverse effect on the Company's financial condition and results of operations.
- o The Company's business is concentrated in the banking industry, making it susceptible to a downturn in that industry.
- o Fluctuations in quarterly operating results may result in volatility in the Company's stock price. No assurance can be given that operating results will not vary. The Company's stock price may also be volatile, in part, due to external factors such as announcements by third parties or competitors, inherent volatility in the high-technology sector and changing market conditions in the industry.
- o The diversion of management's time and attention to the search for a new permanent CEO, and related transition issues, may temporarily dilute management's focus on the Company's day-to-day operations.

For a detailed discussion of these and other risk factors, interested parties should review the Company's filings with the Securities and Exchange Commission, including Exhibit 99.01 attached hereto.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to the Company's market risk for the nine months ended June 30, 2001. See the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2000 for additional discussions regarding quantitative and qualitative disclosures about market risk.





PART II - OTHER INFORMATION

(a) Exhibits:

10.35 Credit Agreement with U.S. Bank National Association  
99.01 Safe Harbor for Forward-Looking Statements under the Private  
Securities Litigation Reform Act of 1995

(b) Reports on Form 8-K:

The registrant filed a Report on Form 8-K on May 15, 2001 pursuant to Item 5 (Other Events).

SIGNATURE

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

TRANSACTION SYSTEMS ARCHITECTS, INC.  
(Registrant)

Dated: August 14, 2001

By: /s/ EDWARD C. FUXA

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Edward C. Fuxa  
Principal Accounting Officer and Controller

## CREDIT AGREEMENT

Dated as of June 28, 2001

TRANSACTION SYSTEMS ARCHITECTS, INC., a Delaware corporation ("TSA") and ACI WORLDWIDE INC., a Nebraska corporation ("ACI") (TSA and ACI are sometimes hereinafter individually and collectively referred to as the "Borrower"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association (the "Bank"), hereby agree as follows:

ARTICLE I  
AMOUNTS AND TERMS OF ADVANCES

## SECTION 1.01. COMMITMENT AND ADVANCES

(A) Commitment. The Bank agrees, on the terms and conditions hereinafter set forth, to make advances (the "Advances") to the Borrower from time to time during the period from the date hereof to and including June 27, 2002 (the "Termination Date") in an aggregate amount not to exceed at any time outstanding the sum of Twenty-Five Million Dollars (\$25,000,000) (the Bank's obligation to make such Advances under the terms of this Agreement is hereinafter referred to as the "Commitment"). Within the limits of the Commitment, the Borrower may borrow, repay pursuant to Section 1.04, and reborrow under this Section 1.01(A).

(B) Purpose of Advances. The Advances shall be used only for working capital and general corporate purposes of the Borrower.

(C) Recordation of Amount of Advances. In the absence of manifest error, the books and records of the Bank shall be conclusive and binding upon the Borrower as to the principal balance of the Advances outstanding at any time and the amount of accrued interest.

## SECTION 1.02. MAKING ADVANCES.

(A) Advance Requests. Each Advance shall be made on written notice from the Borrower to the Bank signed by Larry G. Fendley, Dwight G. Hanson, Edward C. Fuxa, or James R. Walker, or such other person or persons as the Borrower may from time to time designate in writing to the Bank (such persons are hereinafter referred to as "Designated Individuals") delivered before 12:00 p.m. (Omaha, Nebraska time) on a Business Day (as defined below) specifying the amount of such Advance, the interest rate applicable thereto under Section 1.04, and, for each LIBOR Rate Advance, the Interest Period applicable thereto (each such notice is hereinafter referred to as an "Advance Request"); provided, however, that:

(1) Any Advance Request for a LIBOR Rate Advance (as defined below) shall be delivered to the Bank not later than 12:00 p.m. (Omaha, Nebraska time) at least two New York Banking Days preceding the first day of the Interest Period applicable to such LIBOR Rate Advance; and

(2) The Bank may, in its discretion, make Advances at the Index-Based Rate pursuant to verbal requests (whether in person or by telephone) from any of the Designated Individuals, provided, that: (a) the Borrower shall confirm such verbal request in writing promptly after making such verbal request, and (b) the Bank shall have no liability to the Borrower or any other person with respect to Advances made by the Bank in good faith pursuant to any such verbal request.

(B) Availability of Advances. Subject to the advance notification requirements for a LIBOR Interest Period set forth in Section 1.02(A)(1), not later than 2:30 p.m. (Omaha, Nebraska time) on the date of such Advance Request (or, in the case of a LIBOR Rate Advance, on the second New York Banking Day following the date of such Advance Request) and upon fulfillment of the applicable conditions set forth in Article II, the Bank will make such Advance available to the Borrower in same day funds by depositing such Advance in an account maintained by the Borrower at the Bank, at the Bank's address referred to in Section 6.02. The Bank may rely without further investigation on the information set forth in any Advance Request.

(C) Minimum Amounts. Each LIBOR Rate Advance (as defined below) shall be in the minimum amount of \$1,000,000 or an integral multiple of \$500,000 in excess thereof. Each Index Rate Advance (as defined below) shall be in the minimum amount of \$10,000 or any integral multiple of \$5,000 in excess thereof.

## SECTION 1.03. BORROWING BASE REPORTING.

(A) Borrowing Base Defined. As used in this Agreement, the "Borrowing Base" shall be an amount equal to seventy-five percent (75%) of Eligible Domestic Accounts, plus (2) zero percent (0%) of Eligible Foreign Accounts. From time to time as required herein, the Borrower shall deliver to the Bank a certificate in substantially the form of Exhibit "A" attached hereto, signed by the chief financial officer of the Borrower, setting forth the information and calculations necessary for the determination of the Borrowing Base (each, a "Borrowing Base Certificate").

(B) Eligible Accounts Defined; Exclusions. "Eligible Domestic Accounts" shall consist solely of trade accounts of the Borrower and the Borrower's subsidiaries listed on Schedule 1.03(B) attached hereto (collectively, the "Primary Subsidiaries") with respect to account debtors located in the United States, for which invoices have been delivered to the respective account debtors, which accounts have been created in the ordinary course of the business and upon which the right to receive payment is absolute and not contingent upon the fulfillment of any condition whatsoever. "Eligible Foreign Accounts" shall consist solely of those trade accounts of the Borrower and the Primary Subsidiaries with respect

to account debtors located outside of the United States, which accounts have been created in the ordinary course of business and upon which the right to receive payment is absolute and not contingent upon the fulfillment of any condition whatsoever. Notwithstanding the foregoing, the following shall not be included in either Eligible Domestic Accounts or Eligible Foreign Accounts:

- (1) Any Eligible Domestic Account which is more than one hundred twenty (120) days past invoice date, unless such account is supported by a letter of credit acceptable to the Bank;
- (2) Any Eligible Foreign Account which is more than ninety (90) days past invoice date, unless such account is supported by a letter of credit acceptable to the Bank;
- (3) Any Eligible Domestic Account if more than twenty-five percent (25%) of the aggregate amount of accounts of such customer have at the time remained unpaid for more than one hundred twenty (120) days after invoice date;
- (4) Any Eligible Foreign Account if more than twenty-five percent (25%) of the aggregate amount of accounts of such customer have at the time remained unpaid for more than ninety (90) days after invoice date;
- (5) any account for which there exists any right of setoff, defense or discount (except regular discounts allowed in the ordinary course of business to promote prompt payment) or for which any defense or counterclaim has been asserted; provided, however, in cases where the account debtor has a contractual right of setoff against an account owed by such debtor to the Borrower or the Primary Subsidiaries (which right of offset is not disputed by Borrower or the Primary Subsidiaries), such account shall only be excluded under this Section 1.03(B)(2) to the extent of the setoff claimed by the account debtor;
- (6) any account which arises from the sale or lease to or performance of services for, or represent an obligation of, an employee, affiliate, parent or subsidiary;
- (7) customer clearing accounts, bank overdrafts, and outstanding checks or drafts;
- (8) accounts subject to any Factoring Agreement (as defined below); and
- (9) any account deemed ineligible by the Bank in its reasonable discretion based on the creditworthiness of the account debtor, as determined by the Bank in a manner generally consistent with similar determinations made by the Bank from time to time.

#### SECTION 1.04. REPAYMENT AND INTEREST.

(A) Repayment. The Borrower shall repay the aggregate unpaid principal amount of all Advances, with interest thereon as provided herein, in accordance with the terms of this Agreement and the Promissory Note of the Borrower in substantially the form of Exhibit "B" attached hereto (the "Note").

(B) Interest Rate Options. Interest on each Advance hereunder shall accrue from the date of such Advance until such Advance is paid in full at one of the following per annum rates selected by Borrower in the applicable Advance Request:

- (1) The prime rate announced by the Bank from time to time, as and when such rate changes (the "Index Rate"), less One-Quarter of One Percent (0.25%) (the "Index-Based Rate"); or
- (2) Subject to the advance notification requirements set forth in Section 1.02(A)(1), the 1, 2, 3 or 6 month LIBOR rate quoted by the Bank from Telerate Page 3750 or any successor thereto (which shall be the LIBOR rate in effect two New York banking days prior to commencement of the LIBOR Rate Advance)(the "LIBOR Rate") plus One and Three-Quarters Percent (1.75%) (the "LIBOR-Based Rate").

The Bank's internal records of applicable interest rates shall be determinative in the absence of manifest error. Advances to which the Index-Based Rate are applicable are referred to herein as "Index Rate Advances", and Advances to which the LIBOR-Based Rate are applicable are referred to herein as "LIBOR Rate Advances."

(C) Payment of Interest. Interest on Advances shall be payable as follows: (1) for all Index Rate Advances, interest shall be payable monthly in arrears; and (2) for all LIBOR Rate Advances, interest shall be payable at the earlier to occur of: (a) the next Quarterly Payment Date, or (b) the end of the applicable Interest Period. All accrued interest remaining unpaid on all Advances shall be due on the Termination Date.

(D) Payment of Principal. Principal of all Index-Rate Advances shall be due and payable in full on the Termination Date. Principal of all LIBOR Rate Advances shall be due and payable at the end of the applicable Interest Period, but in no event later than the Termination Date.

(E) Prepayment. The Borrower may prepay any Index Rate Advance, in whole or in part, at any time and without penalty. The Borrower may not prepay any LIBOR Rate Advance prior to the expiration of the then-applicable Interest Period without the express written consent of the Bank, which the Bank will not grant except upon the terms and subject to the conditions hereinafter provided. Lender's consent to the prepayment of any LIBOR Rate Advance prior to the end of the then-applicable Interest Period shall be conditioned upon the following:

(1) The Borrower shall have given to the Bank not less than five days prior written notice of the Borrower's intent to prepay such LIBOR Rate Advance, specifying the amount to be prepaid and the date of prepayment;

(2) Any prepayment of a LIBOR Rate Advance shall be in an amount equal to the remaining entire principal balance of such LIBOR Rate Advance.

(3) Together with such prepayment, the Borrower shall pay all Breakage Costs (as defined below).

(F) Breakage Costs. In connection with the prepayment of any LIBOR Rate Advance prior to the last business day of the applicable Interest Period, whether as a result of a voluntary prepayment or due to acceleration upon default or otherwise, the Borrower agrees to pay all of the Bank's costs, expenses and the Interest Differential (as determined by the Bank) incurred as a result of such prepayment (collectively, "Breakage Costs"). The term "Interest Differential" shall mean that sum equal to the greater of zero (0) or the financial loss incurred by the Bank resulting from prepayment, calculated as the difference between the amount of interest the Bank would have earned (from like investments as of the first day of the LIBOR Rate Advance) had prepayment not occurred and the interest the Bank will actually earn (from like investments as of the date of prepayment) as a result of the redeployment of funds from the prepayment. Because of the short-term nature of this facility, the Borrower agrees that the Interest Differential shall not be discounted to its present value.

(G) Failure to Select Interest Rate Option or Interest Period. In the event that no rate is selected in an Advance Request, the applicable interest rate shall be deemed to be the Index-Based Rate. In the event that any Advance Request specifies a LIBOR Rate Advance but fails to specify an Interest Period, the Interest Period applicable to such LIBOR Rate Advance shall be deemed to be one month. In the event that the Borrower does not timely select an interest rate option at least two banking days before a LIBOR Rate Advance expires and such Advance is not paid in full at the expiration of such Interest Period, such LIBOR Rate Advance shall automatically be converted to an Index Rate Advance, such conversion being effective as of the expiration of the Interest Period for such LIBOR Rate Advance.

(H) Interest Period for LIBOR Rate Advances. The interest period of 1, 2, 3 or 6 months for any LIBOR Rate Advance, as selected by Borrower in the applicable Advance Request (each, an "Interest Period"), shall begin on the date of such LIBOR Rate Advance and end on the last day of such Interest Period, provided, however, that no Interest Period shall extend beyond the Termination Date.

(I) Unavailability of LIBOR Rate. Notwithstanding anything to the contrary contained herein, if on any date on which a LIBOR Based Rate is to be determined pursuant hereto, the Bank determines that deposits in U.S. dollars are not being offered in the relevant amounts or for the relevant maturities to its lending office in the London interbank dollar market and/or the LIBOR Rate is otherwise not determinable for any reason whatsoever and/or the LIBOR Rate does not accurately cover the cost to the Bank of making or maintaining such type of Advances, then the Bank's obligation to make LIBOR Rate Advances shall be suspended until the Bank notifies the Borrower that the circumstances giving rise to such suspension no longer exist. The Borrower shall pay interest on the unpaid principal amount of each Advance made during the period of any such suspension from the date of such Advance until such principal amount is paid in full, payable on the last day of each calendar month during such period at a fluctuating interest rate equal to the Index-Based Rate (as defined below).

(J) Changes In Index Rate. Changes in the Index Based Rate shall be effective immediately upon the corresponding change in the Index Rate.

(K) Default Rate. Upon the occurrence of an Event of Default, the Borrower shall pay interest on demand at the Default Rate on the principal amount of all Advances outstanding until the date such Advances are paid in full. The "Default Rate" is a fluctuating rate equal to 2% per annum above the then-applicable Index Rate.

(L) Usury. It is the intention of the Bank and the Borrower hereof that the Note and this Agreement and all provisions hereof and of all documents securing the Note conform in all respects to applicable law so that no payment of interest or other sum construed to be interest shall exceed the highest lawful rate permissible. In determining the rate of interest paid or payable under this Agreement and the Note or any of the loan Documents, all funds paid or to be paid as interest or construed to be interest shall be prorated, allocated, or spread as permitted under applicable law. If, through any circumstances, the contract of the Borrower and the Bank would result in payment, receipt or reservation of sums exceeding the highest lawful interest rate applicable to this transaction, or if the Borrower pays or lender receives or reserves any sum as interest or construed to be interest in excess of such rate, then, ipso facto, (1) the amount contracted for shall be automatically reduced to the highest lawful rate authorized for this transaction, and (2) the amount of excess interest paid shall be applied to the reduction of the principal balance of the Note, if any, and if the principal balance has been fully paid, the excess interest shall be refunded to the Borrower and the Borrower agrees to accept such refund. Thereupon, to the extent permitted by law, the Bank shall not be subject to any penalty provided for the contracting for, charging, or receiving of interest in excess of such highest lawful rate, regardless of when or the circumstances under which such refund or application was made.

SECTION 1.05. [RESERVED].

SECTION 1.06. PAYMENTS AND COMPUTATIONS. The Borrower shall make each payment hereunder and under the Note not later than 12:00 noon (Omaha, Nebraska time) on the day when due in lawful money of the United States of America to the Bank at its address referred to in Section 6.02 in same day funds. All computations of interest and fees hereunder and under the Note shall be made by the Bank on the

basis of a year of 360 days for the actual number of days (including the first day but excluding the last day) elapsed.

SECTION 1.07. PAYMENT ON NONBUSINESS DAYS. Whenever any payment to be made hereunder or under the Note shall be stated to be due on a Saturday, Sunday or a public or bank holiday in Omaha, Nebraska (any other day being a "Business Day"), such payment may be made on the next succeeding Business Day (except that in the case of a LIBOR Rate Advance where the next succeeding Business Day falls in the next succeeding calendar month, then such payment shall be made on the next preceding Business Day with interest adjusted accordingly), and such extension of time shall in such case be included in the computation of payment of interest or commitment fee, as the case may be.

SECTION 1.08. COMMITMENT FEE. The Borrower agrees to pay to the Bank a commitment fee ("Commitment Fee") on the average daily unused portion of the Commitment from the date hereof at the rate of one quarter of one percent (0.25%) per annum payable in arrears on each Quarterly Payment Date and on the Termination Date.

## ARTICLE II CONDITIONS PRECEDENT

SECTION 2.01. CONDITION PRECEDENT TO INITIAL ADVANCE. The obligation of the Bank to make its initial Advance is subject to the condition precedent that the Bank shall have received at least two Business Days before the day of such Advance the following, each in form and substance satisfactory to the Bank:

(A) Loan Documents. The following documents, duly executed (and acknowledged, if required by form) by all parties thereto (collectively, the "Loan Documents"):

- (1) This Agreement;
- (2) The Note;
- (3) Pledge Agreements from TSA and ACI, each in substantially the form attached hereto as Exhibit C" (the "Pledge Agreements");
- (4) Security Agreements of the Borrower and each of the Primary Subsidiaries, in substantially the form attached hereto as Exhibit "D" (the "Security Agreements");
- (5) Acknowledgement copies of proper Financing Statements (Form UCC-1) of the Borrower and each of the domestic Primary Subsidiaries duly filed under the Uniform Commercial Code of all jurisdictions as may be necessary or, in the opinion of the Bank, desirable to perfect the security interests created by the Security Agreements to which such domestic Primary Subsidiaries are a party (collectively, the "Financing Statements");
- (6) Guaranties of each of the Primary Subsidiaries, substantially in the form of Exhibit "E" attached hereto, pursuant to which such Primary Subsidiaries unconditionally guarantee the prompt payment and performance of all obligations of the Borrower under the Loan Documents (collectively, the "Guaranties").

(B) UCC Searches. Certified copies of Requests for Information (Form UCC-11), or equivalent reports, listing the Financing Statements and all other effective financing statements which name the Borrower (under its present name and any previous name) or any of the Primary Subsidiaries as debtor and which are filed in the jurisdictions in which the Financing Statements are to be filed, together with copies of such other financing statements (none of which shall cover the collateral purported to be covered by the Security Agreements);

(C) Evidence of Insurance. Evidence of the insurance required by the terms of the Loan Documents;

(D) Evidence of Actions Relating to Security Interests. Evidence that all other actions necessary or, in the opinion of the Bank, desirable to create, perfect and protect the security interests created by the Loan Documents have been taken;

(E) Resolutions. Certified copies of the resolutions of the board of directors (or other governing body, as appropriate) of the Borrower and each of the Primary Subsidiaries approving each Loan Document to which it is a party and certified copies of all documents evidencing other necessary action and governmental approvals, if any, with respect to such Loan Document.

(F) Incumbency Certificate. A certificate of the Secretary of the Borrower certifying the names, titles, and true signatures of the President or other officers of the Borrower authorized to sign each Loan Document and the other documents to be delivered by it hereunder, together with similar documentation for each of the Primary Subsidiaries.

(G) Opinion. A favorable opinion of Erickson & Sederstrom, P.C., counsel for the Borrower, substantially the form of Exhibit "F" as to: (1) the existence and authority of the Borrower and each Primary Subsidiary organized under the laws of any of the United States (the "Domestic Subsidiaries"); (2) the enforceability of each Loan Document to which the Borrower or any of the Domestic Subsidiaries is a party against the Borrower or such Domestic Subsidiary, as applicable, and (3) such other matters as the Bank may reasonably request.

(H) Intercreditor Agreements. The original, fully-executed Intercreditor Agreement among the Bank, the Borrower, and Fleet, in substantially the form attached hereto as Exhibit "G".

(I) Collateral Inspection. The Bank shall have conducted an examination of all collateral described in the Loan Documents, with the results of such examination being acceptable to the Bank.

(J) Certificates. The Bank shall have received a Borrowing Base Certificate and Compliance Certificate satisfactory to the Bank.

SECTION 2.02. CONDITIONS PRECEDENT TO ALL ADVANCES. The obligation of the Bank to make each Advance (including the initial Advance) shall be subject to the further conditions precedent that on the date of such Advance:

(A) Accuracy of Representations, Etc.; No Default. The following statements shall be true (and the submission of each Advance Request and receipt by the Borrower of any proceeds of such Advance shall be deemed to constitute a representation and warranty by the Borrower that such statements are true on such date):

(1) The representations and warranties contained in Article III of this Agreement and the other Loan Documents are correct on and as of the date of such Advance as though made on and as of such date;

(2) no event has occurred and is continuing, or would result from such Advance, which constitutes an Event of Default (as defined in Section 5.01 hereof) or would constitute an Event of Default but for any requirement that notice be given or time elapse or both.

(B) Other Approvals. The Bank shall have received such other approvals, opinions or documents as the Bank may reasonably request.

### ARTICLE III REPRESENTATIONS AND WARRANTIES

SECTION 3.01. REPRESENTATIONS AND WARRANTIES OF THE BORROWER. The Borrower represents and warrants to the Bank as follows:

(A) Organization. TSA is a corporation duly formed, validly existing and in good standing under the laws of the state of Delaware. ACI is a corporation duly formed, validly existing and in good standing under the laws of Nebraska. Each of the Primary Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization. Each of TSA and the Primary Subsidiaries are authorized to transact business in the State of Nebraska (or the failure to be so authorized will not have a material adverse effect on the obligations of such parties under the Loan Documents). Each of TSA and the Primary Subsidiaries have obtained all licenses, authorizations and permits required under applicable law for the conduct of its business in each jurisdiction in which such licensure or permitting is required.

(B) Power and Authority. The Borrower and each of its subsidiaries (including the Primary Subsidiaries) have all necessary power and authority to conduct their respective businesses as presently conducted. The execution, delivery and performance by the Borrower and each of the Primary Subsidiaries of each Loan Document to which it is or will be a party are within the powers of the Borrower and such Primary Subsidiary, have been duly authorized by all necessary action, do not contravene:

(1) The articles of incorporation or bylaws (or other formation and operation documents and agreements) of the Borrower or such Primary Subsidiary, or

(2) any law or any contractual restriction binding on or affecting the Borrower or such Primary Subsidiary.

Such execution, delivery and performance do not result in or require the creation of any lien, security interest or other charge or encumbrance (other than pursuant thereto) upon or against the Borrower or any such Primary Subsidiary or with respect to any of their respective properties.

(C) No Authorization Required. No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by the Borrower and the Primary Subsidiaries of any Loan Document to which it is a party.

(D) Binding Obligations. This Agreement is, and each other Loan Document to which the Borrower or any Primary Subsidiary is or will be a party when delivered hereunder will be, legal, valid and binding obligations of the Borrower and such Primary Subsidiary, respectively enforceable against the Borrower and such Primary Subsidiary, respectively in accordance with their respective terms.

(E) Financial Statements. The Borrower has heretofore delivered to the Bank a copy of TSA's: (i) Annual Report on Form 10-K for the fiscal year ended as of September 30, 2000; (ii) Quarterly Report on Form 10-Q for the quarterly periods ended December 31, 2000 and March 31, 2001 (the "TSA Reports"). The financial statements contained in the TSA Reports were prepared on a consolidated basis in accordance with generally accepted accounting principles on a basis consistent with that of the previous fiscal year or period (hereinafter, "GAAP"), except where otherwise noted in the financial statements, and fairly reflect the financial position of the Borrower and all of its subsidiaries as of the date thereof, and the results of the respective operations for the Borrower and its subsidiaries for the period covered thereby. Neither the Borrower nor any of its subsidiaries has any significant known contingent liabilities other than as indicated on said financial statements, and since said date of March 31, 2001, there has been no material adverse change in the condition, financial or otherwise, of the Borrower or any of its subsidiaries.

(F) No Liens, Etc. Except for a portion of receivables which have been factored by the Borrower in the ordinary course of business pursuant to an existing

factoring agreement dated March 31, 2000 (the "Fleet Factoring Agreement"), between the Borrower and Fleet Business Credit Corporation ("Fleet"), none of the assets of the Borrower is subject to any mortgage, pledge, title retention lien, or other lien, encumbrance or security interest, except for: (a) current taxes not delinquent or taxes being contested as provided by law in good faith and by appropriate legal proceedings; (b) liens arising in the ordinary course of business for sums not due or sums being contested in good faith and by appropriate legal proceedings, but not involving any deposits or advances of borrowed money or the deferred purchase price of property or services; and (c) to the extent specifically shown in the financial statement referred to above.

(G) Other Restrictions. Neither the Borrower nor any of its subsidiaries is a party to any agreement or instrument, or subject to any charter or other corporate restriction, nor subject to any judgment, decree or order of any court or governmental body, which the Borrower knows or reasonably should know may have a material and adverse effect on the business, assets, liabilities, financial condition, or operations of the Borrower or such subsidiary, or the obligations of the Borrower under the Loan Documents. Except as disclosed in Schedule 3.01(G) attached hereto, the Borrower has no, nor with reasonable diligence should have had, knowledge of or notice that the Borrower or any of its subsidiaries is in default with respect to the performance, observance or fulfillment of any obligations, covenants or conditions contained in any agreement, instrument, charter or other corporate restriction, judgment, decree or order of any court or governmental body that might have a material adverse impact on the Borrower or its subsidiaries.

(H) No Transfer of Assets. Except for: (1) transfers in the ordinary course of business, (2) transfers made pursuant to the Fleet Factoring Agreement described above, and (3) those transfers disclosed in Schedule 3.01(H) attached hereto, neither the Borrower nor any of its subsidiaries has sold, conveyed, transferred, disposed of, or otherwise further encumbered, any material amount of their respective assets within the last ninety (90) days.

(I) No Litigation. There is no pending or threatened action or proceeding affecting the Borrower or any of its subsidiaries before any court, governmental agency or arbitrator, which, if adversely determined, would result in a material adverse effect on the financial condition or operations of the Borrower or any of its subsidiaries, except as disclosed in Schedule 3.01(I) attached hereto.

(J) Use of Proceeds. No proceeds of any Advance will be used to acquire any security in any transaction which is subject to Sections 13 and 14 of the Securities Exchange Act of 1934.

(K) Margin Stock. Neither the Borrower nor any of its subsidiaries is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System), and no proceeds of any Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock.

(L) Status Under Investment Company Act. None of the Borrower or its subsidiaries are an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(M) No Violation of Environmental Laws. The Borrower has not received notice of, nor knows of, nor suspects any facts which might constitute any violations by the Borrower or its subsidiaries of any federal, state and local, environmental, health, and safety laws, codes and ordinances in all rules and regulations promulgated thereunder (hereinafter collectively referred to as "Environmental Laws") with respect to the business, operations, assets, equipment, property, leaseholds or other facilities of the Borrower or its subsidiaries. There is no present violation of Environmental Laws with respect to any property owned, leased, or occupied by the Borrower or its subsidiaries.

(N) Taxes. The Borrower and each of its subsidiaries have: (1) timely filed all state, federal, local and foreign tax returns which it is obligated to file, and (2) paid when due all taxes and other impositions of any nature whatsoever imposed by any federal, state or foreign government or other authority, on or with respect to the Borrower or its subsidiaries or any of their respective properties, including, without limitation, all income taxes, ad valorem property taxes, sales and use taxes, excise taxes, and general or special assessments.

(O) ERISA. The Borrower and all of its subsidiaries are in compliance in all material respects with the Employee Retirement Income Security Act of 1974, as amended, and all regulations promulgated thereunder (collectively, "ERISA") to the extent applicable to the Borrower and its subsidiaries, except for any noncompliance which could not reasonably be expected to result in any material adverse change in the properties, business or operations of the Borrower. Borrower has received no notice to the contrary from the Pension Benefits Guaranty Corporation ("PBGC") or any other governmental agency.

#### ARTICLE IV COVENANTS

SECTION 4.01. AFFIRMATIVE COVENANTS OF THE BORROWER. So long as any amount payable hereunder or under the Note shall remain unpaid or the Bank shall have any Commitment hereunder, the Borrower will (and, to the extent applicable, will cause each of its subsidiaries to):

(A) Corporate Existence, Etc. Preserve and maintain its corporate existence and keep in force and effect all licenses, permits and franchises necessary and material to the proper conduct of its business; maintain, preserve and keep its property, plant and equipment, including, without limitation, all tangible and intangible assets, in good repair, working order and condition.

(B) Compliance With Laws, Etc. Comply in all material respects with all

applicable laws, rules, regulations and orders, including without limitation, all applicable Environmental Laws and ERISA, such compliance to include, without limitation, paying before the same become delinquent all taxes, assessments and governmental charges imposed upon it or upon its property prior to the initial Advance hereunder and thereafter except to the extent contested in good faith.

(C) Visitation Rights; Collateral Examination. Permit the Bank or any agents or representatives thereof to examine and make copies of abstracts from the records and books of account of, and visit the properties of the Borrower and its subsidiaries, conduct field collateral examinations at the expense of the Borrower and at any reasonable time and from time to time discuss the affairs, finances and accounts of the Borrower and its subsidiaries with any of their respective officers or directors.

(D) Reporting Requirements. Furnish to the Bank:

(1) as soon as available and in any event within 50 days after the end of each fiscal quarter of TSA, a copy of the consolidated financial statements (including balance sheets, statements of income and cash flows, all accompanying notes thereto and management letters) for the Borrower and all of its subsidiaries for such quarter, prepared on a consolidated basis in accordance with GAAP, reviewed in accordance with Statement on Accounting Standards No. 71 by Arthur Andersen or other independent certified public accountants reasonably acceptable to the Bank, together with related 10-Q filings made with the Securities and Exchange Commission (the "SEC"), which documents shall be sent directly by such accountants to the Bank (provided, however, that to the extent such documentation is available for downloading by the Bank through the SEC's EDGAR database, and the Bank has received from such accountants all remaining documentation required under this paragraph, the delivery requirement of this Section 4.01(D)(1) shall be deemed satisfied);

(2) as soon as available and in any event within 100 days after the end of each fiscal year of TSA, a copy of the consolidated financial statements (including balance sheets, statements of income and cash flows, all accompanying notes thereto and management letters) for the Borrower and all of its subsidiaries for such year, prepared on a consolidated basis in accordance with GAAP, audited and certified without qualification by Arthur Andersen or other independent certified public accountants reasonably acceptable to the Bank, together with related 10-K filings made with the SEC; which documents shall be sent directly by such accountants to the Bank (provided, however, that to the extent such documentation is available for downloading by the Bank through the SEC's EDGAR database, and the Bank has received from such accountants all remaining documentation required under this paragraph together with a letter from such accountants to the Bank indicating that the information available through EDGAR has been audited and certified by such accountants as provided herein, the delivery requirement of this Section 4.01(D)(2) shall be deemed satisfied);

(3) promptly after the filing or receiving thereof, copies of all reports and notices which the Borrower or any of its subsidiaries files under ERISA with the Internal Revenue Service or the PBGC or the U.S. Department of Labor or which the Borrower or any of its subsidiaries receives from such entities;

(4) as soon as available and in any event within thirty (30) days after the end of each Quarterly Payment Date, unless requested more often by the Bank, a duly completed Borrowing Base Certificate setting forth the Borrowing Base as of such Quarterly Payment Date;

(5) promptly upon the completion of each fiscal quarter, a compliance certificate, in substantially the form of Exhibit "H" attached hereto (each, a "Compliance Certificate"), setting forth the Borrower's calculations of its Consolidated Tangible Net Worth, Consolidated Working Capital, and Consolidated EBITDAR (each as defined below), signed by the Chief Financial Officer of the Borrower.

(6) promptly, upon the occurrence of an Event of Default or an event that but for the passage of time or the giving of notice or both would constitute an Event of Default, notice of such Event of Default or event;

(7) promptly, upon the occurrence or claimed occurrence of a default, breach or event of default under any note or any other evidence of indebtedness or agreement of the Borrower or any subsidiary (or any event that but for the passage of time or the giving of notice or both would constitute a default) under any other agreement to which the Borrower or any of its subsidiaries is a party pursuant to which the obligations or liabilities (or claimed obligations or liabilities) of the Borrower or such subsidiary are in excess of \$1,000,000, notice of such occurrence, default, event or claim;

(8) promptly, upon filing of, or receipt of notice or service thereof, notice of any litigation filed by or against the Borrower or any of its subsidiaries (including the Primary Subsidiaries), where the amount in question exceeds \$1,000,000, or which could have a material adverse effect on the ability of the Borrower or such subsidiary to perform its obligations under the Loan Documents to which it is a party;

(9) if requested by the Bank, (a) a listing of all accounts, notes receivable and inventory of the Borrower and its subsidiaries, and (b) listing of all of accounts payable of the Borrower and its subsidiaries, all of the foregoing certified by the chief financial officer of the Borrower;

(10) promptly, upon the occurrence or claimed occurrence of any event



(including, without limitation, any default, breach or event of default) which, under the terms of any Factoring Agreement, could result in any obligation of the Borrower to Fleet or claim for damages by Fleet against the Borrower in excess of \$1,000,000.

(11) such other information respecting the condition or operations, financial or otherwise, of the Borrower and its subsidiaries as the Bank may from time to time reasonably request; and

(E) Net Worth. Maintain at all times a Consolidated Tangible Net Worth of not less than \$140,000,000. "Consolidated Tangible Net Worth" means the total stockholders' equity of the Borrower and the Primary Subsidiaries, minus the amount of all intangibles, and excluding "accumulated other comprehensive income," all as determined in accordance with GAAP.

(F) Working Capital. Maintain at all times a minimum Consolidated Working Capital of \$60,000,000. "Consolidated Working Capital" means the excess of current assets of the Borrower and the Primary Subsidiaries over current liabilities of the Borrower and the Primary Subsidiaries, current assets and current liabilities each to be determined in accordance with GAAP.

(G) EBITDAR. Maintain at all times a minimum Consolidated EBITDAR of \$40,000,000. "Consolidated EBITDAR" means for any period, the total of the following each calculated without duplication for the Borrower and the Primary Subsidiaries on a consolidated basis for such period: (i) net income from operations; plus (ii) any provision for (or less any benefit from) income taxes included in determining such net income; plus (iii) interest expense deducted in determining such net income; plus (iv) amortization and depreciation expense deducted in determining such net income; plus (v) rental expense deducted in determining such net income; plus (vi) other extraordinary non-cash charges (such as writing off good will), plus (vii) for measurement periods ending no later than September 30, 2001, certain extraordinary cash charges shown on Schedule 4.01(G) not to exceed \$6,500,000 in the aggregate as they are incurred; in each case determined in accordance with GAAP to the extent applicable. Consolidated EBITDAR shall be measured quarterly based upon the four quarter period then ended.

(H) GAAP. Maintain a standard accounting system in accordance with GAAP.

(I) Insurance. In addition to and without limiting any insurance requirements in the Loan Documents, maintain and keep in force insurance of the types and in the amounts customarily carried in lines of business similar to the Borrower's (and its subsidiaries'), including but not limited to fire, extended coverage, public liability and property damage, carried with companies and in amounts satisfactory to the Bank. Schedules setting forth all insurance then in effect shall be delivered to the Bank from time to time at the Bank's request; cause the Bank to be named as loss payee on all such insurance relating to the collateral described in the Loan Documents; cause such policies of insurance to provide that any policy may not be cancelled or terminated without the insurance company giving the Bank at least 15 days written notice; and, within 30 days after notice in writing from the Bank, obtain such additional insurance as the Bank may reasonably request.

(J) Additional Guaranties. As requested by the Bank, cause Borrower's majority-owned subsidiaries (whether now existing or hereafter created by the Borrower) to execute and deliver to the Bank an unconditional guaranty substantially in the form attached hereto as Exhibit "E".

(K) Accounts. Maintain the primary operating accounts of the Borrower and its subsidiaries with the Bank.

SECTION 4.02. NEGATIVE COVENANTS OF THE BORROWER. So long as any amount payable hereunder or under the Note shall remain unpaid or the Bank shall have any Commitment hereunder, the Borrower will not (nor will it permit any of its subsidiaries to):

(A) Liens, Etc. Create or suffer to exist any lien, security interest or other charge or encumbrance, or any other type of preferential arrangement, upon or with respect to any properties of the Borrower or its subsidiaries, whether now owned or hereafter acquired, or assign any right to receive income, in each case to secure any Debt. "Debt" means (A) indebtedness for borrowed money or for the deferred purchase price of property or services, (B) obligations as lessee under leases which shall have been or should be, in accordance with GAAP, recorded as capital leases, (C) obligations under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clause (A) or (B) above, and (D) liabilities in respect of unfunded vested benefits under plans covered by Title IV of the Employee Retirement Income Security Act of 1974 ("ERISA").

(B) Dividends, Etc. Declare or pay any dividends, purchase or otherwise acquire for value any of its stock, preferred or otherwise, now or hereafter outstanding, or make any distribution of assets to its shareholders in excess of \$100,000 per year.

(C) Debt. Create, incur, assume or permit to exist any Debt or any other liabilities or obligations, whether matured or unmatured, liquidated or unliquidated, direct or contingent, joint or several, except (1) the liabilities of the Borrower to the Bank for money borrowed hereunder, (2) those trade payables incurred in the ordinary course of business, (3) unsecured indebtedness of the Borrower and its subsidiaries in amounts not exceeding \$5,000,000 in the aggregate, and (4) those obligations set forth on Schedule 4.02(D).

(D) Other Expenditures. Incur capital expenditures, lease obligations (whether classified as capital or operating leases) or other expenditures resulting in an aggregate amount of expenditures for the Borrower and its subsidiaries in any fiscal year in excess of \$5,000,000.

(E) Merger, Consolidation, Acquisitions, Transfers of Assets. Without the prior written consent of the Bank (which consent shall not be unreasonably withheld or delayed), merge into or consolidate with any corporation or other entity; make any substantial change in the nature of the business of the Borrower or its subsidiaries or recapitalize, reclassify or repurchase any of stock of the Borrower or its subsidiaries, acquire any other enterprise or entity or all or substantially all of the assets of any other entity; sell, lease, assign, transfer or otherwise dispose of all or substantially all of the assets of the Borrower or any of its subsidiaries.

(F) Change in Management. Change the current management of TSA or ACI, which the Borrower represents to the Bank to be as follows:

TSA: Chairman--Gregory J. Duman  
Interim Chief Executive Officer/President--Larry G. Fendley  
Chief Financial Officer--Dwight G. Hanson

ACI: President--Mark R. Vipond  
Treasurer--Dwight G. Hanson

Provided, however, that the Bank acknowledges that TSA is currently engaged in an executive search process for the purpose of selecting a new Chief Executive Officer/President to serve on a permanent basis. Such selection and replacement shall not constitute a violation of this paragraph.

(G) Change in Location of Offices. Change the location of the chief executive offices of TSA or ACI from their current chief executive offices located in Omaha, Nebraska.

(H) Guarantees. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for any liabilities or obligations of any other person or entity, except for guarantees by the Borrower of indebtedness otherwise permitted under Section 4.02(C) of this Agreement which is incurred by a Primary Subsidiary.

(I) Loans, Advances, Investments. Without the Bank's prior written consent (which consent shall not be unreasonably withheld or delayed), make any loans or advances to or investment in any person or entity, other than: (1) trade accounts receivable generated in the ordinary course of business, and (2) loans made pursuant to those existing commitments described in Schedule 4.02(J) attached hereto.

(J) Futures Transactions. Use Advances to purchase, assume or hold any position in any commodity futures, market or exchange.

(K) Factoring Arrangements. Enter into any factoring arrangements or other transactions pursuant to which accounts are sold, except that so long as no Event of Default (or event which with the passage of time or the giving of notice or both, would become an Event of Default) has occurred:

(1) The Borrower may from time to time sell specifically identified accounts to Fleet pursuant to the Fleet Factoring Agreement if either:

(a) The accounts to be sold are not Eligible Domestic Accounts or Eligible Foreign Accounts; or

(b) The following requirements shall have been satisfied:

(i) The Borrower shall have provided the Bank with not less than three (3) Business Days' advance written notice of its intent to sell such accounts, which notice shall include: (A) an itemization of the specific accounts to be sold, the amounts thereof, and the purchase price therefor, (B) copies of any documentation reflecting such sale, (C) a then-current Borrowing Base Certificate reflecting the exclusion of such accounts; and (D) a then current Compliance Certificate; and

(ii) The Bank shall have determined that, after exclusion of the accounts to be sold from the Borrowing Base, the aggregate amount of all Advances outstanding, together with all Advance Requests Pending, does not exceed an amount equal to: (A) eighty-five percent (85%) of Eligible Domestic Accounts, plus (B) the lesser of (1) fifty percent (50%) of Eligible Foreign Accounts, or (2) fifty percent of the aggregate amount of all Advances outstanding and Advance Requests pending (the sum of (A) plus (B) is hereinafter referred to as the "Factoring Limit").

(2) The Borrower may from time to time sell specifically identified accounts to other parties pursuant to other factoring arrangements if either:

(a) The accounts to be sold are not Eligible Domestic Accounts or Eligible Foreign Accounts, and the Borrower shall have provided the Bank with reasonable advance written notice (in no event less than three (3) business days) of its intent to sell such accounts, which notice shall include: (A) an itemization of the specific accounts to be sold, the amounts thereof, and the purchase price therefor, (B) copies of any documentation reflecting such sale, (C) a statement indicating

that the accounts to be sold are neither Eligible Foreign Accounts nor Eligible Domestic Accounts, (D) a then-current Borrowing Base Certificate; and (E) a then current Compliance Certificate; or

(b) The following requirements shall have been satisfied:

(i) The Borrower shall have provided the Bank with not less than ten (10) Business Days' advance written notice of its intent to sell such accounts, which notice shall include: (A) an itemization of the specific accounts to be sold, the amounts thereof, and the purchase price therefor, (B) copies of any documentation reflecting such sale, (C) a then-current Borrowing Base Certificate reflecting the exclusion of such accounts; and (D) a then current Compliance Certificate; and

(ii) The Bank shall have determined that, after exclusion of the accounts to be sold from the Borrowing Base, the aggregate amount of all Advances outstanding, together with all Advance Requests Pending, does not exceed the Factoring Limit;

The Fleet Factoring Agreement, together with any and all agreements entered into pursuant to Section 4.02(K)(2), are collectively referred to herein as the "Factoring Agreements." In no event shall any accounts which are subject to any Factoring Agreement be included in the calculation of the Borrowing Base or the Factoring Limit at any time.

#### ARTICLE V EVENTS OF DEFAULT

##### SECTION 5.01. EVENTS OF DEFAULT.

(A) Events of Default. Any of the following events shall constitute an "Event of Default" hereunder:

(1) The Borrower shall fail to pay any amount payable hereunder or under the Note when due; or

(2) Any representation or warranty made by the Borrower or any Primary Subsidiary, and/or any of their respective officers under or in connection with any Loan Document shall prove to have been incorrect in any material respect when made; or

(3) The Borrower or any of its subsidiaries shall fail to perform or observe any other term, covenant or agreement contained in any Loan Document on its part to be performed or observed and any such failure shall remain unremedied for thirty (30) days after written notice ("Notice Period") thereof shall have been given to the Borrower by the Bank, provided, however, that during the Notice Period the Bank may suspend the making of Advances; or

(4) The Borrower or any of its subsidiaries shall fail to pay any Material Indebtedness (defined below) to any party (excluding indebtedness evidenced by the Note) or any interest or premium thereon, when due (whether by scheduled maturity, required repayment, acceleration, demand or otherwise) and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Material Indebtedness; or any other default under any agreement or instrument relating to any such Material Indebtedness, or any other event, shall occur and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such Material Indebtedness; or any such Material Indebtedness shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required repayment), prior to the stated maturity thereof (as used herein, the words "Material Indebtedness" shall mean any indebtedness or obligation where the aggregate amount due or subject to acceleration upon default is in excess of \$1,000,000); or

(5) The Borrower or any of its subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Borrower or any of its subsidiaries seeking to adjudicate it a debtor or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or for any substantial part of its property, and, in the case of any such proceeding instituted against it (but not instituted by it) either such proceeding shall remain undismissed or unstayed for a period of sixty (60) days or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against it or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property) shall occur; or the Borrower shall take any action to authorize any of the actions set forth above in this subsection (5); or

(6) Any judgment or order for the payment of money in excess of \$1,000,000 shall be rendered against the Borrower or any of its

subsidiaries and either:

(a) enforcement proceeding shall have been commenced by any creditor upon such judgment or order, or

(b) the Borrower (or subsidiary, as applicable) shall have failed to supersede such judgment or order with a surety reasonably acceptable to the Bank on or before the lapse of the time period for appeal thereof or therefrom;

(7) Any material provision of any of the Loan Documents shall for any reason cease to be valid and binding on the Borrower or any Primary Subsidiary, or the Borrower or any Primary Subsidiary shall so state or assert in writing;

(8) The Security Agreements or Pledge Agreements shall for any reason, except to the extent permitted by the terms thereof, cease to create a valid and perfected first priority security interest in any of the collateral purported to be covered thereby;

(9) The acquisition by any person or entity, or two or more persons or entities acting in concert, of beneficial ownership (within the meaning of SEC Rule 13d-3 under the Securities Exchange Act of 1934) of 20% or more of the outstanding shares of voting stock of either TSA or ACI.

(10) Any event of default specified under any of the Loan Documents.

(11) There shall occur or exist any facts which lead the Bank to believe in good faith that the Borrower will not, or will be unable to, pay when due any amounts due under this Agreement or any of the Loan Documents.

(B) Remedies. Upon the occurrence of any Event of Default, the Bank may declare its obligation to make Advances to be terminated or suspended as the Bank may determine, whereupon the same shall forthwith terminate, and the Bank may, by notice to the Borrower, declare the Note, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Note, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower; and may exercise all rights and remedies provided in any Loan Document and/or by applicable law, provided, however, that in the event of an actual or deemed entry of an order for relief with respect to any Loan Party under the Federal Bankruptcy Code, (x) the obligation of the Bank to make Advances shall automatically be terminated and (y) the Note, all such interest and all such amounts shall automatically become due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower.

#### ARTICLE VI MISCELLANEOUS

SECTION 6.01. AMENDMENTS, ETC. No amendment or waiver of any provision of any Loan Document, nor consent to any departure by the Borrower shall in any event be effective unless the same shall be in writing and signed by the Bank and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 6.02. NOTICES, ETC. All notices and other communications provided for under any Loan Document shall be in writing (including telegraphic, telex, facsimile or cable communication) and mailed, telegraphed, telexed, cabled, faxed or delivered, if to the Borrower, at its address at 224 South 108th Avenue, Omaha, Nebraska 68154, Attention: Chief Financial Officer, and if to the Bank, at its address at 8800 West Center Road, Omaha, Nebraska 68124, Attention: Kevin D. Munro, Vice President, or, as to each party, at such other address as shall be designated by such party in a written notice to the other party. All such notices and communications shall, when mailed, telegraphed, telexed, faxed or cabled, be effective when received or confirmed by telex answerback, respectively, except that notices to the Bank pursuant to the provisions of Article I shall not be effective until actually received by the Bank. Notwithstanding the other provisions of this Section 6.02, the Bank may accept oral borrowing notices pursuant to Section 1.02 hereof, provided that the Bank shall incur no liability to the Borrower in acting on any such communication that the Bank believes to have been given by a person authorized to give such notice on behalf of the Borrower. Any confirmation sent by the Bank to the Borrower of any borrowing under this Agreement shall, in the absence of manifest error, be conclusive and binding for all purposes as to the Borrower.

SECTION 6.03. NO WAIVER, REMEDIES. No failure on the part of the Bank to exercise, and no delay in exercising, any right under any Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any right under any Loan Document preclude any other or further exercise thereof or the exercise of any other right. The remedies provided in the Loan Documents are cumulative and not exclusive of any remedies provided by law.

SECTION 6.04. ACCOUNTING TERMS. All accounting terms not specifically defined herein shall be construed in accordance with GAAP.

SECTION 6.05. COSTS, EXPENSES AND TAXES. The Borrower agrees to pay on demand:

(A) Closing Costs. All costs and expenses in connection with the preparation, execution, delivery, filing, recording and administration of the Loan Documents (whether or not the transaction contemplated by the Loan Documents is consummated), including, without limitation, on-site collateral examinations and due diligence, the reasonable fees and out-of-pocket expenses of counsel for the Bank (who may be in-house counsel for the Bank), and local counsel who may be

retained by said counsel, with respect thereto and with respect to advising the Bank as to its rights and responsibilities under the Loan Documents. In addition, the Borrower shall pay any and all stamp and other taxes (excluding income taxes of the Bank) and fees payable or determined to be payable in connection with the execution, delivery, filing and recording of the Loan Documents and the other documents to be delivered under the Loan Documents, and agrees to save the Bank harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and fees;

(B) Enforcement Costs. All costs and expenses (including reasonable counsel fees and expenses) in connection with the enforcement of the Loan Documents and the other documents to be delivered in connection with the Loan Documents, including without limitation all such costs and expenses related directly or indirectly to any enforcement, sale, collection or disposition of collateral or incurred directly or indirectly with respect to any litigation or bankruptcy proceeding.

SECTION 6.06. RIGHT OF SETOFF. If any payment of principal, interest or other sums is not made when due, or upon the occurrence of any other Event of Default, the Bank is hereby authorized to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Bank to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under any Loan Document, irrespective of whether or not the Bank shall have made any demand under such Loan Document and irrespective of whether or not such deposits, indebtedness or such obligations may be unmatured or contingent, and although the amount of such deposits may be in excess of the Bank's share of the obligations and Advances. The rights of the Bank under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) which the Bank may have.

SECTION 6.07. SEVERABILITY. Any provision of this Agreement or of any other Loan Document which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or thereof or affecting the validity or unenforceability of such provision in any other jurisdiction.

SECTION 6.08. CONSENT TO JURISDICTION AND SERVICE.

(A) THE BORROWER HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY NEBRASKA STATE OR FEDERAL COURT SITTING IN OMAHA, NEBRASKA IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY LOAN DOCUMENT AND THE BORROWER HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEBRASKA STATE COURT OR IN SUCH FEDERAL COURT. THE BORROWER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY IT MAY EFFECTIVELY DO SO, THE DEFENSE OF ANY INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING.

(B) THE BORROWER IRREVOCABLY CONSENTS TO THE SERVICE OF COPIES OF THE SUMMONS AND COMPLAINT AND ANY OTHER PROCESS WHICH MAY BE SERVED IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT TO WHICH THE BORROWER IS A PARTY BY THE MAILING OF COPIES OF SUCH PROCESS TO THE BORROWER AT ITS ADDRESS SPECIFIED IN SECTION 6.02. THE BORROWER AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW.

(C) NOTHING IN THIS SECTION 6.08 SHALL AFFECT THE RIGHT OF THE BANK TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR AFFECT THE RIGHT OF THE BANK TO BRING ANY ACTION OR PROCEEDING AGAINST THE BORROWER OR ITS PROPERTY IN THE COURTS OF OTHER JURISDICTIONS.

SECTION 6.09. BINDING EFFECT, GOVERNING LAW. This Agreement shall be binding upon and inure to the benefit of the Borrower and the Bank and their respective successors and assigns, except that the Borrower shall not assign any of its respective rights hereunder or any interest herein without the prior written consent of the Bank. The Loan Documents shall be governed by, and construed in accordance with, the laws of the State of Nebraska without regard to principles of conflicts of laws.

SECTION 6.10. INDEMNIFICATION. The Borrower hereby indemnifies and holds the Bank harmless from and against and shall reimburse the Bank with respect to any and all claims, demands, causes of action, losses, damages, liabilities, costs and expenses (including attorneys fees and court costs) of any and every kind or character, known or unknown, fixed or contingent, asserted against the Bank at any time and from time to time by reason of or arising out of: (1) the breach of any representation or warranty of the Borrower or any Primary Subsidiary as set forth in this Agreement or any Loan Document to which the Borrower or any Primary Subsidiary is a party, (2) the failure of the Borrower or any Primary Subsidiary to perform any obligation in this Agreement or any Loan Document to which the Borrower or such Primary Subsidiary is a party, required to be performed by the Borrower or such Primary Subsidiary, or (3) the exercise of any rights of the Bank under the Loan Documents, including, without limitation, attempts to realize on any collateral. The indemnification obligations of the Borrower under this section shall survive the repayment of all Advances and the termination of this Agreement.

SECTION 6.11. WAIVER OF JURY TRIAL. THE BORROWER AND THE BANK HEREBY IRREVOCABLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENT TO WHICH IT IS A PARTY OR ANY INSTRUMENT OR DOCUMENT DELIVERED IN CONNECTION THEREWITH.

SECTION 6.12. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute but one and the same agreement. This Agreement shall be effective only when accepted by the Bank, as

indicated by the signature of its duly authorized officers set forth below.

SECTION 6.13. ENTIRE AGREEMENT. This Agreement and the Loan Documents constitute the entire understanding between the Borrower and the Bank with respect to the subject matter hereof, and supersedes all prior written or oral understandings. This Agreement may not be modified, amended or terminated except by a written agreement signed by the party against whom enforcement is sought.

SECTION 6.14. OBLIGATIONS JOINT AND SEVERAL.

(A) Obligations Joint and Several. In the event that the Borrower consists of more than one individual or entity, each Borrower expressly acknowledges that it has benefited and will benefit, directly and indirectly, from each and every Advance, and hereby acknowledges and undertakes, together with each other Borrower, joint and several liability for the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of the Borrower under this Agreement and the other Loan Documents (including, without limitation, any and all post-petition interest and expenses whether or not allowed under any bankruptcy, insolvency or other similar law)(collectively, the "Obligations"). Each Borrower hereby acknowledges that this Agreement is the independent and several obligation of each Borrower and may be enforced against each Borrower separately, whether or not enforcement of any right or remedy hereunder has been sought against any other Borrower. Each Borrower further agrees that its liability hereunder and under any other Loan Document shall be absolute, unconditional, continuing and irrevocable. Each Borrower expressly waives any requirement that the Bank exhaust any right, power or remedy and proceed against any other Borrower under this Agreement or any other Loan Documents, or against any Primary Subsidiary or other person under any guaranty of, or security for, any of the Obligations.

(B) Joint and Several Obligations Absolute. If acceleration of the time for payment of any amount payable by a Borrower with respect to the Obligations is stayed upon the insolvency, bankruptcy, or reorganization of any other Borrower, all such amounts otherwise subject to acceleration under the terms of this Agreement shall nonetheless be payable by the other Borrower hereunder forthwith on demand by the Bank. Each Borrower hereby agrees that its joint and several liability for the Obligations of any other Borrower (the "Other Obligations") under this Agreement shall not be released, discharged, diminished, impaired, reduced, or affected for any reason or by the occurrence of any event, including, without limitation, one or more of the following events, whether or not with notice to or the consent of any Borrower: (a) the taking or accepting of collateral as security for any or all of the Other Obligations or the release, surrender, exchange, or subordination of any collateral now or hereafter securing any or all of the Other Obligations; (b) any partial release of the liability of any Borrower hereunder; (c) any disability of the other Borrower, or the dissolution, insolvency, or bankruptcy of any other Borrower or any other party at any time liable for the payment of any or all of the Other Obligations; (d) any renewal, extension, modification, waiver, amendment, or rearrangement of any or all of the Other Obligations or any instrument, document, or agreement evidencing, securing, or otherwise relating to any or all of the Other Obligations; (e) any adjustment, indulgence, forbearance, waiver, or compromise that may be granted or given by the Bank to any other Borrower or any other party ever liable for any or all of the Other Obligations; (f) any neglect, delay, omission, failure, or refusal of the Bank to take or prosecute any action for the collection of any of the Other Obligations or to foreclose or take or prosecute any action in connection with any instrument, document, or agreement evidencing, securing, or otherwise relating to any or all of the Other Obligations; (g) the unenforceability or invalidity of any or all of the Other Obligations or of any instrument, document, or agreement evidencing, securing, or otherwise relating to any or all of the Other Obligations; (h) any payment by any other Borrower or any other party to the Bank is held to constitute a preference under applicable bankruptcy or insolvency law or if for any other reason the Bank is required to refund any payment or pay the amount thereof to someone else; (i) the settlement or compromise of any of the Other Obligations; (j) the non-perfection of any security interest or lien securing any or all of the Other Obligations; (k) any impairment of any collateral securing any or all of the Other Obligations; (l) the failure of the Bank to sell any collateral securing any or all of the Other Obligations in a commercially reasonable manner or as otherwise required by law; (m) any change in the corporate existence, structure, or ownership of any other Borrower; or (n) any other circumstance which might otherwise constitute a defense available to, or discharge of, any other Borrower (other than payment of the Other Obligations).

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

BORROWER: TRANSACTION SYSTEMS ARCHITECTS, INC., a Delaware corporation

By: /s/ Dwight G. Hanson  
-----  
Dwight G. Hanson, Senior Vice  
President and Chief Financial Officer

ACI WORLDWIDE INC.,  
a Nebraska corporation

By: /s/ Dwight G. Hanson  
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Dwight G. Hanson, Treasurer  
and Attorney-in-fact

BANK:

U.S. BANK NATIONAL ASSOCIATION,  
a national banking association

By: /s/ Kevin D. Munro

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Kevin D. Munro, Vice President

A LOAN AGREEMENT MUST BE IN WRITING TO BE ENFORCEABLE UNDER NEBRASKA LAW. TO PROTECT YOU AND US FROM ANY MISUNDERSTANDINGS OR DISSAPPOINTMENTS, ANY CONTRACT, PROMISE, UNDERTAKING, OR OFFER TO FOREBEAR REPAYMENT OF MONEY OR TO MAKE ANY OTHER FINANCIAL ACCOMMODATION IN CONNECTION WITH ANY LOAN OF MONEY OR GRANT OR EXTENSION OF CREDIT, OR ANY AMENDMENT OF, CANCELLATION OF, WAIVER OF, OR SUBSTITUTION FOR ANY OR ALL OF THE TERMS OR PROVISIONS OF ANY INSTRUMENT OR DOCUMENT EXECUTED IN CONNECTION WITH ANY LOAN OF MONEY OR GRANT OR EXTENSION OF CREDIT, MUST BE IN WRITING TO BE EFFECTIVE.

EXHIBIT/SCHEDULE LIST TO CREDIT AGREEMENT

Exhibit A	Form of Borrowing Base Certificate
Exhibit B	Form of Promissory Note
Exhibit C	Form of Pledge Agreement
Exhibit D	Form of Security Agreement
Exhibit E	Form of Guaranty
Exhibit F	Form of Opinion of Borrower's Counsel
Exhibit G	Form of Intercreditor Agreement
Exhibit H	Form of Compliance Certificate
Schedule 1.03(B)	Primary Subsidiaries
Schedule 3.01(G)	Existing Defaults
Schedule 3.01(H)	Transfers of Assets
Schedule 3.01(I)	Pending Litigation
Schedule 4.01(G)	Anticipated Extraordinary Cash Charges
Schedule 4.02(D)	Permitted Debt
Schedule 4.02(J)	Permitted Loans



## TRANSACTION SYSTEMS ARCHITECTS, INC.

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS UNDER THE PRIVATE SECURITIES  
LITIGATION REFORM ACT OF 1995

## CERTAIN CAUTIONARY STATEMENTS AND RISK FACTORS

Transaction Systems Architects, Inc. and its subsidiaries (collectively, the Company) or their representatives from time to time may make or may have made certain forward-looking statements, whether orally or in writing, including without limitation, any such statements made or to be made in the Management's Discussion and Analysis contained in its various SEC filings or orally in conferences or teleconferences. The Company wishes to ensure that such statements are accompanied by meaningful cautionary statements, so as to ensure to the fullest extent possible the protections of the safe harbor established in the Private Securities Litigation Reform Act of 1995.

ACCORDINGLY, THE FORWARD-LOOKING STATEMENTS ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO AND ARE ACCOMPANIED BY THE FOLLOWING MEANINGFUL CAUTIONARY STATEMENTS IDENTIFYING CERTAIN IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE IN SUCH FORWARD-LOOKING STATEMENTS.

This list of factors is likely not exhaustive. The Company operates in a rapidly changing and evolving business involving electronic commerce and payments, and new risk factors will likely emerge. Management cannot predict all of the important risk factors, nor can it assess the impact, if any, of such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those in any forward-looking statements.

ACCORDINGLY, THERE CAN BE NO ASSURANCE THAT FORWARD-LOOKING STATEMENTS WILL BE ACCURATE INDICATORS OF FUTURE ACTUAL RESULTS AND IT IS LIKELY THAT ACTUAL RESULTS WILL DIFFER FROM RESULTS PROJECTED IN FORWARD-LOOKING STATEMENTS. SUCH DIFFERENCES MAY BE MATERIAL.

TSA is dependent on its BASE24 products

TSA has derived a substantial majority of its total revenues from licensing its BASE24 family of software products and providing services and maintenance related to those products. The BASE24 products and related services and maintenance are expected to provide the majority of TSA's revenues in the foreseeable future. TSA's results will depend upon continued market acceptance of its BASE24 products and related services as well as TSA's ability to continue to adapt and modify them to meet the changing needs of its customers. Any reduction in demand for, or increase in competition with respect to, BASE24 products would have a material adverse effect on TSA's financial condition and results of operations.

TSA is subject to risks of conducting international operations

TSA has derived a majority of its total revenues from sales to customers outside the United States. International operations generally are subject to certain risks, including:

- o difficulties in staffing and management,
- o reliance on independent distributors,
- o fluctuations in foreign currency exchange rates,
- o compliance with foreign regulatory requirements,
- o variability of foreign economic conditions, and
- o changing restrictions imposed by U.S. export laws.

There can be no assurance that TSA will be able to manage the risks related to selling its products and services in international markets.

TSA is dependent on the banking industry

TSA's business is concentrated in the banking industry, making TSA susceptible to a downturn in that industry. For example, a decrease in bank spending for software and related services could result in a smaller overall market for electronic payment software. Furthermore, banks are continuing to consolidate, decreasing the overall potential number of buyers for TSA's products and services. These factors as well as others negatively affecting the banking industry could have a material adverse effect on TSA's financial condition and results of operations.

TSA's future results depend on the success of Compaq Computer Corporation (Compaq) and TSA's relationship with Compaq

Historically, TSA has derived a substantial portion of its total revenues from the licensing of software products that operate on Compaq computers. TSA's BASE24 product line as well as TSA's CoACH, MoneyNet and ICE products run exclusively on Compaq computers. The BASE24 product line is expected to provide a majority of TSA's revenues in the foreseeable future. TSA's future results depend on market acceptance of Compaq computers and the financial success of Compaq. Any reduction in demand for these computers or in Compaq's ability to deliver products on a timely basis could have a material adverse effect on TSA's financial condition and results of operations.

Although TSA has several written agreements with Compaq, none of those

agreements governs the primary relationship between TSA and Compaq, which is that TSA's major product line, BASE24, runs exclusively on Compaq computers. The cooperation and past affiliation between TSA and Compaq have facilitated TSA's ability to develop and market Compaq-compatible products. However, this cooperation is not mandated by contract. The cessation of such cooperation would adversely affect TSA's business. None of TSA's agreements with Compaq would protect TSA if Compaq's cooperation ceased or if Compaq were unable to deliver products on a timely basis. The written agreements cover such discrete matters as funding of market development efforts.

Implementation of the Corporate Strategy to Focus on Consumer e-Payments business may not be successful

TSA has announced a corporate strategy to focus on its Consumer e-Payments business and to consider and implement alternatives for its Electronic Business Infrastructure, Corporate Banking e-Payments and Health Payments Systems businesses ("Other Businesses"). The decision of TSA to implement any aspect of its corporate strategy and the feasibility of implementing the strategy is subject to numerous factors, including market conditions and perceptions, demand for the Other Businesses by potential investors or potential acquirers, personnel, tax, business, general economic conditions, viability of the Other Businesses as stand alone operations, and other factors that could affect TSA's decisions and ability to separate businesses, to divest, raise capital, or implement other alternatives for such businesses, and to implement other aspects of TSA's corporate strategy. There can be no assurance that TSA will implement any aspect of the corporate strategy or that if implemented the strategy will be successful.

The Post Year 2000 business downturn may continue

During the first quarter of fiscal 2000, TSA's large bank and merchant customers and potential new customers, in effect, locked down their systems in preparation for the Year 2000. This Year 2000 lock-down has had a negative impact on TSA's software license fee and services revenue due to the less than expected demand by TSA's customers and potential new customers to upgrade and enhance their current systems. In addition, since the Year 2000 cutover, TSA has found its customers increasingly scrutinizing their information technology purchases which has led to further delays in software and services purchases as compared to the activity in prior periods. The Year 2000 lock-down has interrupted TSA's normal sales cycle and therefore is likely to have a negative impact on the company's revenue and net income beyond fiscal 2000. TSA also believes customer demand for system upgrades and enhancements will be slow to return to normal growth levels, as many of the company's customers upgraded and enhanced their systems prior to the Year 2000. There can be no assurance that TSA's growth rates will return to historical levels.

Changes in Accounting Standards Could Affect the Calculation of Revenues and Operating Results

Additional revenue recognition standards, interpretations or guidance regarding existing standards could be issued in the future. These interpretations and additional standards and guidance could lead to unanticipated changes in TSA's current revenue recognition policies which could affect the timing of the recognition of revenue and cause fluctuations in operating results. Statement of Position 97-2, "Software Recognition" ("SOP 97-2") was issued in October 1997 by the American Institute of Certified Public Accountants. TSA was required to adopt SOP 97-2 beginning in fiscal 1999. As a result of adopting SOP 97-2, TSA was required to change its revenue recognition policy. Under the revised policy, for certain software license contracts with fixed payment terms that extend beyond 12 months, software license fees are recognized upon delivery of the software. Prior to the adoption of SOP 97-2, these software license fees were recognized as the fees were billed and collected.

TSA may not be able to attract and retain key personnel

TSA's success depends on certain of its executive officers, the loss of one or more of whom could have a material adverse effect on TSA's financial condition and results of operations. None of TSA's U.S.-based executive officers is a party to an employment agreement, except for the Company's Chief Executive Officer. TSA believes that its future success also depends on its ability to attract and retain highly-skilled technical, managerial and marketing personnel, including, in particular, personnel in the areas of research and development and technical support. Competition for personnel is intense. There can be no assurance that TSA will be successful in attracting and retaining the personnel it requires.

The market for electronic payment software and services is highly competitive

Many applications software vendors offer products that are directly competitive with BASE24 and other products of TSA. TSA also experiences competition from software developed internally by potential customers and experiences competition for its consulting services from professional services organizations. In addition, processing companies provide services similar to those made possible by TSA's products. Many of TSA's current and potential competitors have significantly greater financial, marketing, technical and other competitive resources than TSA. Current and potential competitors, including providers of transaction-based software, processing, or professional services, may establish cooperative relationships with one another or with third parties to compete more effectively against TSA. It is also possible that new competitors may emerge and acquire market share. In either case, TSA's financial condition and results of operations could be adversely affected. TSA's future success depends on its ability to timely develop and market product enhancements and new products.

The market for software in general is characterized by rapid change in computer hardware and software technology and is highly competitive with respect

to the need for timely product innovation and new product introductions. TSA believes that its future success depends upon its ability to enhance its current applications and develop new products that address the increasingly complex needs of customers. In particular, TSA believes that it must continue to respond quickly to users' needs for additional functionality and multi-platform support. The introduction and marketing of new or enhanced products requires TSA to manage the transition from current products in order to minimize disruption in customer purchasing patterns. There can be no assurance that TSA will continue to be successful in the timely development and marketing of product enhancements or new products that respond to technological advances, that its new products will adequately address the changing needs of the domestic and international markets or that it will successfully manage the transition from current products.

TSA is continually developing new products, product versions and individual features within a large, complex software system. Development projects can be lengthy and are subject to changing requirements, programming difficulties and unforeseen factors which can result in delays in the introduction of new products and features. Delays could have a material adverse effect on TSA's financial condition and results of operations.

In addition, new products, versions or features, when first released by TSA, may contain undetected errors that, despite testing by TSA, are discovered only after a product has been installed and used by customers. To date, undetected errors have not caused significant delays in product introduction and installation or required substantial design modifications. However, there can be no assurance that TSA will avoid problems of this type in the future.

A majority of TSA's license fee revenue is generated by licenses for software products designed to run on Compaq's fault-tolerant mainframe computers. TSA has developed, and continues to develop, certain products for other platforms. However, revenues from these products have not been significant to date. There can be no assurance that TSA will be successful in selling these software products or other products under development. TSA's failure in this regard could have a material adverse effect on its financial condition and results of operations.

TSA is dependent on proprietary technology

TSA relies on a combination of trade secret and copyright laws, nondisclosure and other contractual and technical measures to protect its proprietary rights in its products. There can be no assurance that these provisions will be adequate to protect its proprietary rights. In addition, the laws of certain foreign countries do not protect intellectual property rights to the same extent as the laws of the United States. Although TSA believes that its intellectual property rights do not infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not assert infringement claims against TSA.

Fluctuations in quarterly operating results may result in volatility in TSA's stock price

TSA's quarterly revenues and operating results may fluctuate depending on the timing of executed contracts, license upgrades and the delivery of contracted business during the quarter. In addition, quarterly operating results may fluctuate due to the extent of commissions associated with third party product sales, timing of TSA's hiring of additional staff, new product development and other expenses. No assurance can be given that operating results will not vary due to these factors.

TSA's stock price may be volatile

The stock market has from time to time experienced extreme price and volume fluctuations, particularly in the high technology sector, which have often been unrelated to the operating performance of particular companies. Any announcement with respect to any variance in revenue or earnings from levels generally expected by securities analysts for a given period could have an immediate and significant effect on the trading price of the Class A Common Stock. In addition, factors such as announcements of technological innovations or new products by TSA, its competitors or other third parties, as well as changing market conditions in the computer software or hardware industries, may have a significant impact on the market price of the Class A Common Stock.

TSA's charter contains provisions that may affect changes in control

TSA's Certificate of Incorporation contains provisions that may discourage acquisition bids for TSA. The effect of such provisions may be to limit the price that investors might be willing to pay in the future for shares of the Class A Common Stock.

TSA's acquisition strategy involves numerous risks and challenges

TSA has expanded and will seek to continue to expand its operations through the acquisition of additional businesses that complement its core skills and have the potential to increase its overall value. TSA's future growth may depend, in part, upon the continued success of its acquisition strategy. TSA may not be able to successfully identify and acquire, on favorable terms, compatible businesses. Acquisitions involve many risks, which could have a material adverse effect on TSA's business, financial condition and results of operations, including:

- o Acquired businesses may not achieve anticipated revenues, earnings or cash flow;
- o Integration of acquired businesses and technologies may not be successful and TSA may not realize anticipated economic, operational and other benefits in a timely manner,

particularly if TSA acquires a business in a market in which TSA has limited or no current expertise or with a corporate culture different from TSA's;

- o Potential dilutive effect on TSA's stockholders from continued issuance of Common Stock as consideration for acquisitions;
- o Adverse effect on net income of amortization expense related to goodwill and other intangible assets and other acquisition-related charges, costs and expenses on net income;
- o Competing with other companies, many of which have greater financial and other resources to acquire attractive companies makes it more difficult to acquire suitable companies on acceptable terms; and
- o Disruption of TSA's existing business, distraction of management and other resources and difficulty in maintaining TSA's current business standards, controls and procedures.

The acquisition of MessagingDirect Ltd. involves risks and the related strategies may not be successful.

TSA's objectives and strategies relating to the acquisition of MessagingDirect are subject to numerous risks, including the following: (i) the acquisition is subject to a number of conditions to closing which may not be satisfied, (ii) MessagingDirect is in a highly competitive industry and TSA and MessagingDirect may not be successful against more established competitors, (iii) MessagingDirect is a relatively new company and does not have a significant market presence, revenues, or widespread acceptance of its products, (iv) MessagingDirect's products have not yet been tested by significant and prolonged use in the marketplace, (v) MessagingDirect has not been profitable to date and may not become profitable, (vi) with rapid developments in technology and of competitive products and technologies, MessagingDirect's products may become obsolete before achieving significant revenues and the entire Electronic Statement Presentment ("EBP") and Electronic Bill Presentment and Payment ("EBPP") markets may not achieve the predicted growth rates, (vii) TSA will incur significant expenses and devote significant management time and other resources in assimilating and integrating MessagingDirect which could have a material adverse effect on TSA's operations and financial results, (viii) MessagingDirect's products, personnel, and operations may be difficult to combine with those of TSA, (ix) the issuance of TSA's shares in the acquisition will have a dilutive impact on earnings per share, and amortization of intangible assets will have an adverse effect on earnings, and (x) TSA may incur undisclosed liabilities with respect to MessagingDirect. The strategies and synergies which are the objects of the acquisition depend on numerous factors including acceptance of MessagingDirect's products by TSA's existing customer base and the rapid growth of the ESP and EBPP markets for MessagingDirect's products and there can be no assurance that these factors will materialize, that TSA will implement any aspects of the strategies, or that if implemented the strategies will be successful or the synergies achieved.