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, 2003

Commission File Number 0-25346

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

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

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

Yes x No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No x

As of July 31, 2003, there were 35,635,104 shares of the registrant's Class A Common Stock, par value $.005 per share, outstanding (excluding 1,476,145 shares held as Treasury Stock, and including 7,680 options to purchase shares of the registrant's Class A Common Stock at an exercise price of one cent per share).

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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TRANSACTION SYSTEMS ARCHITECTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	June 30, 2003	September 30, 2002
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 100,893	$ 87,894
Marketable securities	2,807	3,757
Billed receivables, net of allowances of $4,086 and 3,613, respectively	43,479	35,755
Accrued receivables	6,888	13,132
Deferred income taxes, net	9,657	17,554
Other	5,365	4,560
Total current assets	169,089	162,652
Property and equipment, net	10,113	11,597
Software, net	2,684	5,609
Goodwill, net	46,457	55,947
Deferred income taxes, net	25,615	27,546
Other	2,391	3,168
Total assets	$ 256,349	$ 266,519
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt - financing agreements	$ 16,721	$ 18,444
Accounts payable	6,946	7,348
Accrued employee compensation	8,680	7,583
Accrued liabilities	9,116	11,494
Income taxes payable	3,625	7,847
Deferred revenue	68,830	59,598
Other	756	872
Total current liabilities	114,674	113,186
Debt - financing agreements	12,498	24,866
Deferred revenue	20,014	23,860
Other	1,472	1,749
Total liabilities	148,658	163,661
Contingencies (Note 10)		
Stockholders' equity:		
Class A Common Stock, $.005 par value; 50,000,000 shares authorized; 37,111,249 and 36,887,805 shares issued at June 30, 2003 and September 30, 2002, respectively	183	183
Treasury stock, at cost, 1,476,145 shares	(35,258)	(35,258)
Additional paid-in capital	229,572	228,465
Accumulated deficit	(78,715)	(83,927)
Accumulated other comprehensive loss, net	(8,091)	(6,605)
Total stockholders' equity	107,691	102,858
Total liabilities and stockholders' equity	$ 256,349	$ 266,519

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

TRANSACTION SYSTEMS ARCHITECTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2003	2002	2003	2002
Revenues:				
Software license fees	$ 40,717	$ 38,706	$ 110,214	$ 119,152
Maintenance fees	20,675	18,175	58,740	55,656
Services	12,382	12,572	36,559	39,119
Total revenues	73,774	69,453	205,513	213,927
Expenses:				
Cost of software license fees	6,339	6,673	18,567	23,838
Cost of maintenance fees and services	15,082	14,953	45,583	47,366
Research and development	9,478	8,711	25,785	26,678
Selling and marketing	13,686	15,264	40,951	43,002
General and administrative	15,245	11,297	41,932	38,993
Impairment of goodwill	9,290	-	9,290	-
Total expenses	69,120	56,898	182,108	179,877
Operating income	4,654	12,555	23,405	34,050
Other income (expense):				
Interest income	281	404	876	1,044
Interest expense	(682)	(1,313)	(2,425)	(4,376)
Other, net	225	424	(835)	4,022
Total other income (expense)	(176)	(485)	(2,384)	690
Income before income taxes	4,478	12,070	21,021	34,740
Income tax provision	(6,331)	(7,066)	(15,809)	(20,528)
Net income (loss)	$ (1,853)	$ 5,004	$ 5,212	$ 14,212
Earnings (loss) per share information:				
Weighted average shares outstanding:				
Basic	35,571	35,355	35,489	35,303
Diluted	35,571	35,735	35,601	35,576
Earnings (loss) per share:				
Basic	$ (0.05)	$ 0.14	$ 0.15	$ 0.40
Diluted	$ (0.05)	$ 0.14	$ 0.15	$ 0.40

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

TRANSACTION SYSTEMS ARCHITECTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	Nine Months Ended June 30, 2003	Nine Months Ended June 30, 2002
Cash flows from operating activities:		
Net income	$ 5,212	$ 14,212
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,804	4,932
Amortization	3,151	7,918
Gain on sale of business	-	(8,743)
Loss on sale of marketable equity securities	84	-
Impairments of marketable equity securities	-	4,775
Impairment of goodwill	9,290	-
Changes in operating assets and liabilities:		
Billed and accrued receivables, net	(763)	8,282
Other current and noncurrent assets	(4,319)	2,079
Accounts payable	410	(5,919)
Deferred revenue	4,391	4,532
Income taxes	5,606	17,097
Other current and noncurrent liabilities	(809)	(5,502)
Net cash provided by operating activities	26,057	43,663
Cash flows from investing activities:		
Purchases of property and equipment, net	(1,972)	(3,037)
Purchases of software	(367)	(765)
Net proceeds from sale of business	-	5,429
Other, net	629	585
Net cash provided by (used in) investing activities	(1,710)	2,212
Cash flows from financing activities:		
Proceeds from issuance of Class A Common Stock	789	910
Proceeds from exercise of stock options	318	69
Repayments on line of credit	-	(12,000)
Proceeds from debt - financing agreements	-	7,600
Payments on debt - financing agreements	(14,725)	(16,290)
Other, net	(611)	411
Net cash used in financing activities	(14,229)	(19,300)
Effect of exchange rate fluctuations on cash	2,881	544
Net increase in cash and cash equivalents	12,999	27,119
Cash and cash equivalents, beginning of period	87,894	32,004
Cash and cash equivalents, end of period	$ 100,893	$ 59,123

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

TRANSACTION SYSTEMS ARCHITECTS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Nature of Business

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

Condensed Consolidated Financial Statements

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The condensed consolidated financial statements at June 30, 2003, and for the three and nine months ended June 30, 2003 and 2002, 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. Certain amounts previously reported have been reclassified to conform to current presentation.

The condensed consolidated financial statements contained herein should be read in conjunction with the condensed 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, 2002. The results of operations for the three and nine months ended June 30, 2003 are not necessarily indicative of the results that may be achieved for the entire fiscal year ending September 30, 2003.

Use of Estimates in Preparation of Condensed Consolidated Financial Statements

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition, Accrued Receivables and Deferred Revenue

Software License Fees. The Company recognizes software license fee revenue in accordance with American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, "Software Revenue Recognition," SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions," and Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements." For software license arrangements for which services rendered are not considered essential to the functionality of the software, the Company recognizes revenue upon delivery, provided (1) there is persuasive evidence of an arrangement, (2) collection of the fee is considered probable and (3) the fee is fixed or determinable. In most arrangements, vendor-specific objective evidence ("VSOE") of fair value does not exist for the license element; therefore, the Company uses the residual method under SOP 98-9 to determine the amount of revenue to be allocated to the license element. Under SOP 98-9, the fair value of all undelivered elements, such as postcontract customer support (maintenance or "PCS") or other products or services, is deferred and subsequently recognized as the products are delivered or the services are performed, with the residual difference between the total arrangement fee and revenues allocated to undelivered elements being allocated to the delivered element.

When a software license arrangement includes services to provide significant production, modification, or customization of software, those services are not separable from the software and are accounted for in accordance with Accounting Research Bulletin ("ARB") No. 45, "Long-Term Construction-Type Contracts," and the relevant guidance provided by SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Accounting for services delivered over time under ARB No. 45 and SOP 81-1 is referred to as contract

accounting. Under contract accounting, the Company uses
the percentage-of-completion method. Under the percentage-of-completion method, the Company records revenue for the software license fee and services over the development and implementation period, with the percentage of completion measured by the percentage of labor hours incurred to-date to estimated total labor hours for each contract. For those contracts subject to percentage-of-completion contract accounting, estimates of total revenue under the contract, which are used in current percentage-complete computations, exclude amounts due under extended payment terms. In certain cases, the Company provides its customers with extended terms where payment is deferred beyond when the services are rendered. Because the Company is unable to demonstrate a history of enforcing payment terms under such arrangements without granting concessions, the Company excludes revenues due on extended payment terms from its current percentage of completion computation because it cannot be presumed that those fees are fixed or determinable.

For software license arrangements in which a significant portion of the fee is due more than 12 months after delivery, the software license fee is deemed not to be fixed or determinable. For software license arrangements in which the fee is not considered fixed or determinable, the software license fee is recognized as revenue as payments become due and payable, if all other conditions to revenue recognition have been met. For software license arrangements in which the Company has concluded that collection of the fees is not probable, revenue is recognized as cash is collected. In making the determination of collectibility, the Company considers the creditworthiness of the customer, economic conditions in the customer's industry and geographic location, and general economic conditions.

For software license arrangements in which the Company's ability to enforce payment terms depends on customer acceptance provisions, software license fee revenue is recognized upon the earlier of the point at which (1) the customer accepts the software products or (2) the acceptance provisions lapse.

For software license arrangements in which VSOE of the fair value of undelivered elements does not exist to allocate the total fee to all elements of the arrangement, revenue is deferred until the earlier of the point at which (1) such sufficient VSOE of the fair value of undelivered elements does exist or (2) all elements of the arrangement have been delivered.

Gross versus Net. For software license arrangements in which the Company acts as a sales agent for another company's products, revenues are recorded on a net basis. These include arrangements in which the Company does not take title to the products, is not responsible for providing the product or service, earns a fixed commission, and assumes credit risk only to the extent of its commission. For software license arrangements in which the Company acts as a distributor of another company's product, and in certain circumstances, modifies or enhances the product, revenues are recorded on a gross basis. These include arrangements in which the Company takes title to the products and is responsible for providing the product or service.

Subscriptions and Usage Fees. For software license arrangements in which the Company permits the customer to vary their software mix, including the right to receive unspecified future software products during the software license term, the Company recognizes revenue ratably over the license term, provided all other revenue recognition criteria have been met. For software license arrangements in which the customer is charged software license fees based on usage of the product, the Company recognizes revenue as usage occurs over the term of the licenses, provided all other revenue recognition criteria have been met.

Maintenance Fees. Revenues for PCS are recognized ratably over the maintenance term specified in the contract. In arrangements where a time-based software license has a duration of one year or less, or the initial PCS term is relatively long (i.e. greater than fifty percent) compared to the term of the software license, the Company recognizes revenue for the entire arrangement ratably over the PCS term as VSOE of fair value cannot be established.

Services. Revenues from arrangements to provide professional services on a time and materials basis are recognized as the related services are performed. Revenues from professional services provided on a fixed-fee basis are recognized using the percentage-of-completion method.

Non-monetary Transactions. Non-monetary transactions are accounted for in accordance with Accounting Principles Board ("APB") Opinion No. 29, "Accounting for Non-monetary Transactions," which requires that the transfer or distribution of a non-monetary asset or liability generally be based on the fair value of the asset or liability

that is received or surrendered, whichever is more clearly evident. In those cases where fair value of the assets exchanged is not readily determinable, the exchange is recorded at the historical cost of the asset surrendered.

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

Deferred Revenue. Deferred revenue represents (1) payments received from customers for software licenses, maintenance and/or services in advance of providing the product or performing services, (2) amounts deferred whereby VSOE does not exist, or (3) amounts deferred if other conditions to revenue recognition have not been met.

Debt - Financing Agreements

The Company periodically sells rights to future payment streams under software license arrangements with extended payment terms. In accordance with Financial Accounting Standards Board ("FASB") Emerging Issues Task Force ("EITF") 88-18, "Sales of Future Revenues," the Company records the proceeds received from these arrangements as debt and reduces the debt principal as payments are made. Interest on the debt accrues monthly and is computed using the effective interest method.

Recent Accounting Pronouncements

In October 2002, the Company adopted EITF 01-14, "Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred," which requires (1) that reimbursements received for out-of-pocket expenses be classified as revenue, rather than as a reduction of expenses, and (2) upon adoption, comparative financial statements for prior periods be reclassified to comply with the guidance of EITF 01-14. As a result of adopting EITF 01-14, results for the three and nine months ended June 30, 2002 were restated to increase revenues and increase operating expenses by $0.5 million and $1.5 million, respectively. The adoption of EITF 01-14 had no effect on net income.

In December 2002, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for the Company's fiscal year ending September 30, 2003, with disclosure provisions for interim periods beginning after December 15, 2002. The Company does not expect to voluntarily adopt the fair value based method of SFAS No. 123 and, therefore, does not expect the measurement provisions of SFAS No. 148 to affect the Company's financial position or results of operations. The Company has adopted the disclosure provisions required by SFAS No. 148 (see Note 2).

In January 2003, the FASB issued Interpretation No. ("FIN") 46, "Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51," which addresses the consolidation by business enterprises of variable interest entities as defined in FIN 46. FIN 46 applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. FIN 46 applies as of July 1, 2003 for existing arrangements. The Company is currently assessing the impact, if any, the application of FIN 46 is expected to have on its financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and for pre-existing instruments as of the beginning of the first interim period that commences after June 15, 2003. The Company does not expect the provisions of SFAS No. 150 to affect its financial position or results of operations.

In May 2003, the EITF finalized certain provisions within EITF 00-21, "Revenue Arrangements with Multiple Deliverables," which addresses accounting for arrangements that include multiple revenue-generating activities. EITF 00-21 discusses how to determine whether an arrangement involving multiple deliverables contain more than one unit

of accounting, and how consideration received pursuant to such an arrangement should be measured and allocated to the separate units of accounting. The guidance provided by EITF 00-21 is effective for revenue arrangements entered into by the Company as of July 1, 2003. The Company does not expect the provisions of EITF 00-21 to affect its financial position or results of operations.

2. Stock-Based Compensation Plans

The Company accounts for its stock-based compensation plans under the intrinsic value method in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" and follows the disclosure provisions of SFAS No. 123, as amended by SFAS No. 148. In accordance with APB No. 25, no compensation expense has been recognized in the Company's consolidated statements of operations for the three and nine months ended June 30, 2003 and 2002 related to its stock-based compensation plans. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant date of the stock options awarded under those plans, consistent with the fair value method of SFAS No. 123, the Company's net income/loss and earnings/loss per share for the three and nine months ended June 30, 2003 and 2002 would have approximated the following pro forma amounts (in thousands, except per share amounts):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2003	2002	2003	2002
Net income (loss):				
As reported	$ (1,853)	$ 5,004	$ 5,212	$ 14,212
Deduct: stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,427)	(1,433)	(4,455)	(2,108)
Pro forma	$ (3,280)	$ 3,571	$ 757	$ 12,104
Earnings (loss) per share:				
Basic and diluted, as reported	$ (0.05)	$ 0.14	$ 0.15	$ 0.40
Basic and diluted, pro forma	$ (0.09)	$ 0.10	$ 0.02	$ 0.34

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model, a pricing model acceptable under SFAS No. 123. The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. SFAS No. 123 applies only to options granted since fiscal 1996, and additional future awards are anticipated.

3. Corporate Restructuring Charges and Asset Impairment Losses

During fiscal 2001, the Company closed, or significantly reduced the size of, certain product development organizations and geographic sales offices, resulting in restructuring charges and asset impairment losses. The following table shows activity related to these exit activities since September 30, 2002 (in thousands):

	Lease Obligations
Balance, September 30, 2002	$ 1,047
Amounts paid year-to-date during fiscal 2003	(252)
Balance, June 30, 2003	$ 795

The liability for lease obligations relates to the abandonment or reduction of office facilities with lease terms ending on various dates through March 2005, net of expected third-party purchases or sub-leases, and an estimated lease termination loss for the corporate aircraft. The Company continues to seek subleases for certain of the properties as well as an exit to the corporate aircraft lease. The final settlement of these obligations may result in adjustments to these liabilities.

4. Goodwill and Software

During the third quarter of fiscal 2003, the Company performed an analysis of the carrying value of goodwill related to its 2001 acquisition of MessagingDirect Ltd. ("MDL"). This analysis was performed as a result of the Company's decision to reduce staffing levels within the MDL operating unit due to the slower than expected adoption of MDL's secure document delivery technology. As a result of this analysis, which included updated financial forecasts, the Company determined that MDL's remaining goodwill was impaired. The impairment was determined by comparing the estimated fair value of the MDL goodwill to the related carrying value. The fair value was determined using a discounted cash flow approach for the net cash flows of the MDL business and an estimated terminal value. The assumptions supporting the estimated cash flows, including the discount rate and estimated terminal value, reflect management's best estimates at the time. As a result of the fair value test, the Company wrote off the remaining carrying value of MDL goodwill of $9.3 million, which is presented as impairment of goodwill in the accompanying consolidated statements of operations. Other changes to the carrying amount of goodwill during the nine months ended June 30, 2003 resulted from foreign currency translation adjustments.

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

	June 30, 2003	Sept. 30, 2002
Internally-developed software	$ 15,723	$ 15,372
Purchased software	44,131	43,312
	59,854	58,684
Less: accumulated amortization	(57,170)	(53,075)
Software, net	$ 2,684	$ 5,609

Amortization of software is computed using the greater of the ratio of current revenues to total estimated revenues expected to be derived from the software or the straight-line method over an estimated useful life of three years. Software amortization expense recorded in the three and nine months ended June 30, 2003 was $0.7 million and $2.3 million, respectively. Based on capitalized software at June 30, 2003, and assuming no impairment of these software assets, estimated amortization expense for the remainder of fiscal 2003 and in succeeding fiscal years is as follows (in thousands):

2003	$ 613
2004	1,663
2005	289
2006	68
Thereafter	51

5. Debt - Financing Agreements

During the nine months ended June 30, 2002, the Company sold the rights to future payment streams under software license arrangements with extended payment terms to financial institutions and received cash of approximately $7.6 million. The Company did not sell any rights to future payment streams under software license arrangements with extended payment terms during the nine months ended June 30, 2003. The amount of the proceeds received from the financing arrangements is typically determined by applying a discount rate to the gross future payments to be received from the customer. The discount rates used to determine the proceeds during the nine months ended June 30, 2002 ranged from 6.50% to 7.75%. The Company recorded interest expense of $0.7 million and $1.2 million during the three months ended June 30, 2003 and 2002, respectively, and $2.4 million and $3.8 million during the nine months ended June 30, 2003 and 2002, respectively, related to debt - financing agreements.

6. Common Stock and Earnings Per Share

Exchangeable shares, and options to purchase shares of TSA Class A Common Stock ("Common Stock") at an exercise price of one cent per share, received by shareholders of MDL, that have not yet been converted into Common Stock are included in Class A Common Stock for presentation purposes on the June 30, 2003 and September 30, 2002 consolidated balance sheets. Exchangeable shares and MDL options included in Common Stock totaled 0 shares and 7,680 options as of June 30, 2003, and 73,909 shares and 11,010 options as of September 30, 2002, respectively.

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 (the numerator), by the weighted average number of common shares outstanding, adjusted for the dilutive effect of outstanding dilutive securities (the denominator). Exchangeable shares and options received by shareholders of MDL that have not yet been converted into Common Stock are included in common shares outstanding for EPS computations. The difference between the basic and diluted EPS denominators for the three months ended June 30, 2002, which amounted to approximately 380,000 shares, and for the nine months ended June 30, 2003 and 2002, which amounted to approximately 112,000 and 273,000 shares, respectively, were due to the dilutive effect of the Company's outstanding stock options using the treasury stock method. For the three months ended June 30, 2003, basic and diluted EPS are the same, as any outstanding dilutive securities were antidilutive due to the net loss from continuing operations. Weighted average shares from stock options of 1,471,000 were excluded from the computation of diluted EPS for the three months ended June 30, 2002, and weighted average shares from stock options of 5,065,000 and 1,617,000 were excluded from the computation of diluted EPS for the nine months ended June 30, 2003 and 2002, respectively, because the exercise prices of the stock options were greater than the average market price of the Company's common shares. Diluted shares for the three months ended June 30, 2003 excludes 136,000 weighted average incremental shares related to employee and director stock options. These shares are excluded despite their exercise prices being below the average market price of the Company's common shares as their effect is antidilutive. In addition, for the three months ended June 30, 2003, the Company has excluded 4,916,000 shares related to employee and director stock options that have exercise prices greater than the average market price of the Company's common shares.

7. Comprehensive Income/Loss

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2003	2002	2003	2002
Net income (loss)	$ (1,853)	$ 5,004	$ 5,212	$ 14,212
Other comprehensive income (loss):				
Foreign currency translation adjustments	(718)	(793)	(1,249)	484
Change in unrealized investment holding loss:				
Unrealized holding gain (loss) arising during the period	(297)	(2,817)	(237)	(212)
Reclassification for gain(loss) included in net income (loss)	(28)	18	(85)	36
Reclassification for other than temporary loss included in net income (loss)	-	1,103	-	4,632
Comprehensive income (loss)	$ (2,896)	$ 2,515	$ 3,641	$ 19,152

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

	Foreign Currency Translation Adjustments	Unrealized Investment Holding Loss	Accumulated Other Comprehensive Income (Loss)
Balance, September 30, 2002	$ (6,162)	$ (443)	$ (6,605)
Fiscal 2003 year-to-date activity	(1,249)	(237)	(1,486)
Balance, June 30, 2003	$ (7,411)	$ (680)	$ (8,091)

8. Income Taxes

The effective tax rate for the third quarter of fiscal 2003 was approximately 141.4%, which includes the impact of a $9.3 million non-deductible goodwill impairment charge negatively impacting the effective tax rate by 95.4%, as compared to 58.5% for the same period of fiscal 2002. The effective tax rate for the first nine months of fiscal 2003 was approximately 75.2%, which includes the impact of a $9.3 million non-deductible goodwill impairment charge negatively impacting the effective tax rate by 23.0%, as compared to 59.1% for the same period of fiscal 2002. The remaining effective tax rates of 46.0% and 52.2% for the third quarter and first nine months of fiscal 2003 were primarily impacted by non-recognition of tax benefits for operating losses in certain foreign locations and recognition of a valuation allowance for foreign tax credits. The improvement in the effective tax rates for the third quarter and first nine months of fiscal 2003 (excluding the effect of the non-deductible goodwill impairment charge), as compared to the same periods of fiscal 2002, resulted primarily from recognition of R&D credits and extraterritorial income exclusion benefits. The effective tax rates for the third quarter and first nine months of fiscal 2002 were primarily impacted by non-recognition of tax benefits for operating losses in certain foreign locations, recognition of a valuation allowance for foreign tax credits, foreign tax rate differentials and gain on sale of subsidiary.

9. Segment Information

The Company has three operating segments, referred to as business units. These three business units are ACI Worldwide, Insession Technologies and IntraNet. ACI Worldwide products represent the Company's largest product line and include its most mature and well-established applications, which are used primarily by financial institutions, retailers and e-payment processors. Its products are used to route and process transactions for automated teller machine networks; process transactions from point-of-sale devices, wireless devices and the Internet; control fraud and money laundering; authorize checks; establish frequent shopper programs; automate transaction settlement, card management and claims processing; and issue and manage multi-functional applications on smart cards. Insession Technologies products facilitate communication, data movement, monitoring of systems, and business process automation across computing systems involving mainframes, distributed computing networks and the Internet. IntraNet products offer high value payments processing, bulk payments processing, global messaging and continuous link settlement processing.

The Company's chief operating decision makers review business unit financial information presented on a consolidated basis, accompanied by disaggregated information about revenues and operating income by business unit. The Company does not track assets by business unit. No single customer accounted for more than 10% of the Company's consolidated revenues during the three and nine months ended June 30, 2003 and 2002. The following are revenues and operating income for these business units for the periods indicated (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2003	2002	2003	2002
Revenues:				
ACI Worldwide	$ 56,358	$ 52,276	$150,629	$159,952
Insession Technologies	8,600	7,675	24,428	25,744
IntraNet	8,816	9,502	30,456	28,231
	$ 73,774	$ 69,453	$205,513	$213,927
Operating income:				
ACI Worldwide	$ 1,960	$ 9,791	$ 12,220	$ 26,729
Insession Technologies	1,907	1,771	5,135	5,010
IntraNet	787	993	6,050	2,311
	$ 4,654	$ 12,555	$ 23,405	$ 34,050

Offsetting ACI Worldwide operating income for the three and nine months ended June 30, 2003 is a $9.3 million goodwill impairment charge.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2003	2002	2003	2002
Revenues:				
United States	$ 31,867	$ 26,626	$ 89,717	$ 90,373
Other Americas	8,985	16,973	24,594	37,542
Total Americas	40,582	43,599	114,311	127,915
EMEA	25,153	18,582	66,988	64,782
Asia/Pacific	7,769	7,272	24,214	21,230
	$ 73,774	$ 69,453	$205,513	$213,927

	June 30, 2003	Sept. 30, 2002
Long-lived assets:		
United States	$ 52,848	$ 57,616
Other Americas	2,564	6,098
Total Americas	55,412	63,714
EMEA	5,387	11,805
Asia/Pacific	846	802
	$ 61,645	$ 76,321

10. Contingencies

Legal Proceedings

Class Action Litigation. Two class action complaints were filed against the Company and certain individual named defendants in connection with the Company's restatement of its prior consolidated financial statements. The two complaints are Desert Orchid Partners v. the Company, et al. and Nancy Rosen v. the Company, et al.

Pursuant to a Court Order, the two suits were consolidated and, also in accordance with the Court Order, the Court-designated Lead Plaintiff, Genesee County Employees' Retirement System, filed a First Amended Consolidated Class Action Complaint on June 30, 2003 (the "Consolidated Complaint"). The Lead Plaintiff alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 thereunder, on the grounds that certain of the Company's Exchange Act reports and press releases contained untrue statements of material facts, or omitted to state facts necessary to make the statements therein not misleading, with regard to the Company's revenues and expenses during the class period. The Consolidated Complaint alleges that during the purported class period, the Company and the named officers and directors misrepresented the Company's historical financial condition, results of operations and its future prospects, and failed to disclose facts that could have indicated an impending decline in the Company's revenues. The Lead Plaintiff is seeking unspecified damages, interest, fees, costs and rescission. The class period stated in the Consolidated Complaint is January 21, 1999 through November 18, 2002. The Company and the individual defendants were granted an extension of time to file an answer to the Consolidated Complaint. An answer is due on August 20, 2003, at which time the Company and the individual defendants anticipate filing a motion to dismiss.

Derivative Litigation. On January 10, 2003, Samuel Naito filed the suit of "Samuel Naito, Derivatively on behalf of Nominal Defendant Transaction Systems Architects, Inc. v. Roger K. Alexander, Gregory D. Derkacht, Gregory J. Duman, Larry G. Fendley, Jim D. Kever, and Charles E. Noell, III and Transaction Systems Architects, Inc." in the State District Court in Douglas County, Nebraska (the "Naito matter"). The suit is a shareholder derivative action that generally alleges that the named individuals breached their fiduciary duties of loyalty and good faith owed to the Company and its shareholders by causing the Company to conduct its business in an unsafe, imprudent and unlawful manner resulting in damage to the Company. More specifically, the plaintiff alleges that the individual defendants, and particularly the members of the Company's audit committee, failed to implement and maintain an adequate internal accounting control system that would have enabled the Company to discover irregularities in its accounting procedures of certain transactions prior to August 2002, thus violating their fiduciary duties of loyalty and good faith, generally accepted accounting principles and the Company's audit committee charter. The plaintiff seeks to recover an unspecified amount of money damages allegedly sustained by the Company as a result of the individual defendants' breaches of fiduciary duties, as well as the plaintiff's costs and disbursements related to the suit.

On January 24, 2003, Michael Russiello filed the suit of "Michael Russiello, Derivatively on behalf of Nominal Defendant Transaction Systems Architects, Inc. v. Roger K. Alexander, Gregory D. Derkacht, Gregory J. Duman, Larry G. Fendley, Jim D. Kever, and Charles E. Noell, III and Transaction Systems Architects, Inc." in the State District Court in Douglas County, Nebraska (the "Russiello matter"). The suit is a shareholder derivative action that generally alleges that the named individuals breached their fiduciary duties of loyalty and good faith owed to the Company and its shareholders by causing the Company to conduct its business in an unsafe, imprudent and unlawful manner resulting in damage to the Company. More specifically, the plaintiff alleges that the individual defendants, and particularly the members of the Company's audit committee, failed to implement and maintain an adequate internal accounting control system that would have enabled the Company to discover irregularities in its accounting procedures of certain transactions prior to August 2002, thus violating their fiduciary duties of loyalty and good faith, generally accepted accounting principles and the Company's audit committee charter. The plaintiff seeks to recover an unspecified amount of money damages allegedly sustained by the Company as a result of the individual defendants' breaches of fiduciary duties, as well as the plaintiff's costs and disbursements related to the suit.

The Company filed a Motion to Dismiss in the Naito matter on February 14, 2003, and a Motion to Dismiss in the Russiello matter on February 21, 2003. A hearing was scheduled on those Motions for March 14, 2003. Just prior to that date, Plaintiffs' counsel requested that the derivative lawsuits be stayed pending a determination of an anticipated motion to dismiss to be filed in the class action lawsuits when and if service of process is achieved. The Company, by and through its counsel, agreed to that stay. As a result, no other defendants have been served and no discovery has been commenced.

These class action and derivative lawsuits were brought in the United States District Court for the District of Nebraska and the Nebraska District Courts, respectively, and are at preliminary stages. The Company is currently in the process of preparing to respond to the claims made in the lawsuits. The Company intends to defend the foregoing lawsuits vigorously, but, since the lawsuits have only recently been filed and are in the very early stages, the Company cannot predict the outcome and is not currently able to evaluate the likelihood of success or the

range of potential loss, if any, that might be incurred in connection with such actions. However, if the Company were to lose any of these lawsuits or if they were not settled on favorable terms, the judgment or settlement may have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows. The Company has insurance that provides an aggregate coverage of $20.0 million for the period during which the claims were filed, but cannot evaluate at this time whether such coverage will be available or adequate to cover losses, if any, arising out of these lawsuits.

Additional suits against the Company may be commenced in the future. The Company will fully analyze these allegations once all of the complaints are received and intends to vigorously defend against them. There is a risk that such litigation could result in substantial costs and divert management attention and resources from its business, which could adversely affect the Company's business.

Securities and Exchange Commission Investigation. In connection with the Company's restatement of its prior consolidated financial statements, the Company has been in contact with the Securities and Exchange Commission Enforcement Division. On December 9, 2002, certain of the Company's officers and external legal counsel held a telephone conference with representatives of the SEC Enforcement Division. The Company had a follow-up meeting with the SEC Enforcement Division on March 14, 2003. At this meeting, the SEC representatives asked questions about the restatement. The SEC Enforcement Division also requested that the Company provide additional written information regarding the restatement. The Company supplied this information on March 21, 2003. On August 8, 2003, the Company was informed that the SEC Enforcement Division has issued a formal order of private investigation in connection with the Company's restatement of its prior consolidated financial statements. The Company intends to cooperate fully with the SEC with respect to this investigation.

In addition to the foregoing, from time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. The Company is not currently a party to any such legal proceedings, other than as described above, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on the Company's financial condition or results of operations.

Item 2. 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 e-payments and e-commerce. In addition to its own products, the Company distributes, or acts as a sales agent for, software developed by third parties. These products and services are used principally by financial institutions, retailers and e-payment processors, both in domestic and international markets.

Business Units

The Company's products and services are currently organized within three operating segments, referred to as business units. These three business units are ACI Worldwide, Insession Technologies and IntraNet. Most of the Company's products and services are marketed and supported through distribution networks covering three geographic regions: the Americas, Europe/Middle East/Africa ("EMEA") and Asia/Pacific. Each distribution network has its own sales force and supplements this with reseller and/or distributor networks. The following are revenues and operating income for these business units for the three and nine months ended June 30, 2003 and 2002 (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2003	2002	2003	2002
Revenues:				
ACI Worldwide	$ 56,358	$ 52,276	$150,629	$159,952
Insession Technologies	8,600	7,675	24,428	25,744
IntraNet	8,816	9,502	30,456	28,231
	$ 73,774	$ 69,453	$205,513	$213,927
Operating income:				
ACI Worldwide	$ 1,960	$ 9,791	$ 12,220	$ 26,729
Insession Technologies	1,907	1,771	5,135	5,010
IntraNet	787	993	6,050	2,311
	$ 4,654	$ 12,555	$ 23,405	$ 34,050

Offsetting ACI Worldwide operating income for the three and nine months ended June 30, 2003 is a $9.3 million goodwill impairment charge.

Backlog

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

The following table sets forth the Company's recurring and non-recurring backlog, by business unit, as of June 30, 2003 (in thousands):

	Recurring	Non-Recurring	Total
ACI Worldwide	$ 131,220	$ 45,892	$ 177,112
Insession Technologies	20,370	5,704	26,074
IntraNet, Inc.	12,706	10,004	22,710
	$ 164,296	$ 61,600	$ 225,896

Customers may request that their contracts be renegotiated or terminated due to a number of factors, including mergers, changes in their financial condition, or general changes in economic conditions in the customer's industry or geographic location, or the Company may experience delays in the development or delivery of products or services specified in customer contracts. Accordingly, there can be no assurance that contracts included in recurring or non-recurring backlog will actually generate the specified revenues or that the actual revenues will be generated within the one-year period. In evaluating the Company's backlog, the risk factors described below in Forward-Looking Statements should be considered.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are based upon the Company's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that the Company make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and other assumptions that are believed to be proper and reasonable under the circumstances. The Company continually evaluates the appropriateness of its estimates and assumptions, including those related to revenue recognition, provision for doubtful accounts, fair value of investments, fair value of goodwill and software, useful lives of intangible and fixed assets, income taxes, and contingencies and litigation, among others. Actual results could differ from those estimates.

The Company believes that there are several accounting policies that are critical to understanding the Company's historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management's judgments and estimates. These critical policies, and the Company's procedures related to these policies, are described in detail below.

Revenue Recognition, Accrued Receivables and Deferred Revenue

Software License Fees. The Company recognizes software license fee revenue in accordance with American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, "Software Revenue Recognition," SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions," and Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements." For software license arrangements for which services rendered are not considered essential to the functionality of the software, the Company recognizes revenue upon delivery, provided (1) there is persuasive evidence of an arrangement, (2) collection of the fee is considered probable and (3) the fee is fixed or determinable. In most arrangements, vendor-specific objective evidence ("VSOE") of fair value does not exist for the license element; therefore, the Company uses the residual method under SOP 98-9 to determine the amount of revenue to be allocated to the license element. Under SOP 98-9, the fair value of all undelivered elements, such as postcontract customer support (maintenance or "PCS") or other products or services, is deferred and subsequently recognized as the products are delivered or the services are performed, with the residual difference between the total arrangement fee and revenues allocated to undelivered elements being allocated to the delivered element.

When a software license arrangement includes services to provide significant production, modification, or customization of software, those services are not separable from the software and are accounted for in accordance with Accounting Research Bulletin ("ARB") No. 45, "Long-Term Construction-Type Contracts," and the relevant guidance provided by SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Accounting for services delivered over time under ARB No. 45 and SOP 81-1 is referred to as contract accounting. Under contract accounting, the Company uses the percentage-of-completion method. Under the percentage-of-completion method, the Company records revenue for the software license fee and services over the development and implementation period, with the percentage of completion measured by the percentage of labor hours incurred to-date to estimated total labor hours for each contract. For those contracts subject to percentage-of-completion contract accounting, estimates of total revenue under the contract, which are used in current percentage-complete computations, exclude amounts due under extended payment terms. In certain cases, the Company provides its customers with extended terms where payment is deferred beyond when the services are rendered. Because the Company is unable to demonstrate a history of enforcing payment terms under such arrangements without granting concessions, the Company excludes revenues due on extended payment terms from its current percentage of completion computation because it cannot be presumed that those fees are fixed and

determinable.

For software license arrangements in which a significant portion of the fee is due more than 12 months after delivery, the software license fee is deemed not to be fixed or determinable. For software license arrangements in which the fee is not considered fixed or determinable, the software license fee is recognized as revenue as payments become due and payable, if all other conditions to revenue recognition have been met. For software license arrangements in which the Company has concluded that collection of the fees is not probable, revenue is recognized as cash is collected. In making the determination of collectibility, the Company considers the creditworthiness of the customer, economic conditions in the customer's industry and geographic location, and general economic conditions.

For software license arrangements in which the Company's ability to enforce payment terms depends on customer acceptance provisions, software license fee revenue is recognized upon the earlier of the point at which (1) the customer accepts the software products or (2) the acceptance provisions lapse.

For software license arrangements in which VSOE of the fair value of undelivered elements does not exist to allocate the total fee to all elements of the arrangement, revenue is deferred until the earlier of the point at which (1) such sufficient VSOE of the fair value of undelivered elements does exist or (2) all elements of the arrangement have been delivered.

Gross versus Net. For software license arrangements in which the Company acts as a sales agent for another company's products, revenues are recorded on a net basis. These include arrangements in which the Company does not take title to the products, is not responsible for providing the product or service, earns a fixed commission, and assumes credit risk only to the extent of its commission. For software license arrangements in which the Company acts as a distributor of another company's product, and in certain circumstances, modifies or enhances the product, revenues are recorded on a gross basis. These include arrangements in which the Company takes title to the products and is responsible for providing the product or service.

Subscriptions and Usage Fees. For software license arrangements in which the Company permits the customer to vary their software mix, including the right to receive unspecified future software products during the software license term, the Company recognizes revenue ratably over the license term, provided all other revenue recognition criteria have been met. For software license arrangements in which the customer is charged software license fees based on usage of the product, the Company recognizes revenue as usage occurs over the term of the licenses, provided all other revenue recognition criteria have been met.

Maintenance Fees. Revenues for PCS are recognized ratably over the maintenance term specified in the contract. In arrangements where a time-based software license has a duration of one year or less, or the initial PCS term is relatively long (i.e. greater than fifty percent) compared to the term of the software license, the Company recognizes revenue for the entire arrangement ratably over the PCS term as VSOE of fair value cannot be established.

Services. Revenues from arrangements to provide professional services on a time and materials basis are recognized as the related services are performed. Revenues from professional services provided on a fixed fee basis are recognized using the percentage-of-completion method.

Non-monetary Transactions. Non-monetary transactions are accounted for in accordance with Accounting Principles Board ("APB") Opinion No. 29, "Accounting for Non-monetary Transactions," which requires that the transfer or distribution of a non-monetary asset or liability generally be based on the fair value of the asset or liability that is received or surrendered, whichever is more clearly evident. In those cases where fair value of the assets exchanged is not readily determinable, the exchange is recorded at the historical cost of the asset surrendered.

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

Deferred Revenue. Deferred revenue represents (1) payments received from customers for software licenses, maintenance and/or services in advance of providing the product or performing services, (2) amounts deferred whereby VSOE does not exist, or (3) amounts deferred if other conditions to revenue recognition have not been met.

Provision for Doubtful Accounts

The Company maintains a general allowance for doubtful accounts based on its historical experience, along with additional customer-specific allowances. The Company regularly monitors credit risk exposures in its accounts receivable. In estimating the necessary level of its allowance for doubtful accounts, management considers the aging of its accounts receivable, the creditworthiness of the Company's customers, economic conditions within the customer's industry, and general economic conditions, among other factors. Should any of these factors change, the estimates made by management will also change, which in turn impacts the level of the Company's future provision for doubtful accounts. Specifically, if the financial condition of the Company's customers were to deteriorate, affecting their ability to make payments, additional customer-specific provision for doubtful accounts may be required. Also, should deterioration occur in general economic conditions, or within a particular industry or region in which the Company has a number of customers, additional provision for doubtful accounts may be recorded to reserve for potential future losses. A portion of the Company's allowance is related to issues other than creditworthiness, such as disagreements with customers.

Impairment of Investments

The Company records a non-cash charge to earnings when it determines that an investment has experienced an "other than temporary" decline in market value. To make this determination, the Company reviews the carrying value of its marketable equity security investments at the end of each reporting period for impairment. Other-than-temporary impairments are generally recognized if the market value of the investment is below its current carrying value for an extended period, which the Company generally defines as six to nine months, or if the issuer has experienced significant financial declines or difficulties in raising capital to continue operations, among other factors. Future adverse changes in market conditions or poor operating results of underlying investments could result in an inability to recover the carrying value of the recorded marketable securities, thereby possibly requiring additional impairment charges in the future.

Impairment of Goodwill

In accordance with SFAS No. 142, goodwill is tested for impairment at the reporting unit level and must be tested at least annually, utilizing a two-step methodology. The initial step requires the Company to determine the fair value of each reporting unit and compare it to the carrying value, including goodwill, of such reporting unit. If the fair value exceeds the carrying value, no impairment loss is to be recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of this unit may be impaired. The amount of impairment, if any, is then measured in the second step. For impairment testing purposes, the Company has utilized the services of an independent consultant to perform valuations of the Company's reporting units that contained goodwill. Under SFAS No. 142, goodwill is no longer amortized.

Software Amortization and Impairment

Software consists of internally-developed software and purchased software. The Company capitalizes costs related to certain internally-developed software when the resulting products reach technological feasibility. Technological feasibility is determined upon completion of a detailed program design or internal specification. The internal specification establishes that the product can be produced to meet its design specifications including functions, features and technical performance requirements. Purchased software consists of software to be marketed externally that was acquired primarily as the result of a business acquisition ("acquired software") and costs of computer software obtained for internal use that were capitalized.

Amortization of internally-developed software costs begins when the products are available for licensing to customers and is computed separately for each product as the greater of (a) the ratio of current gross revenue for a product to the total of current and anticipated gross revenue for the product or (b) the straight-line method over three years. Due to competitive pressures, it may be possible the anticipated gross revenue or remaining estimated economic life of the software products will be reduced significantly. As a result, the carrying amount of the software product may be reduced accordingly. Amortization of acquired and internal-use software is generally computed using the straight-line method over its estimated useful life of approximately three years.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. An impairment loss is recorded if the

sum of the future cash flows expected to result from the use of the asset (undiscounted and without interest charges) is less than the carrying amount of the asset. The amount of the impairment charge is measured based upon the fair value of the asset.

Accounting for Income Taxes

Accounting for income taxes requires significant judgments in the development of estimates used in income tax calculations. Such judgments include, but would not be limited to, the likelihood the Company would realize the benefits of net operating loss carryforwards, the adequacy of valuation allowances, and the rates used to measure transactions with foreign subsidiaries. As part of the process of preparing the Company's financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which the Company operates. The judgments and estimates used are subject to challenge by domestic and foreign taxing authorities. It is possible that either domestic or foreign taxing authorities could challenge those judgments and estimates and draw conclusions that would cause the Company to incur tax liabilities in excess of those currently recorded. Changes in the geographical mix or estimated amount of annual pretax income could impact the Company's overall effective tax rate.

To the extent recovery of deferred tax assets is not likely based on estimation of future taxable income in each jurisdiction, the Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. Although the Company has considered future taxable income along with prudent and feasible tax planning strategies in assessing the need for the valuation allowance, if the Company should determine that it would not be able to realize all or part of its deferred tax assets in the future, an adjustment to deferred tax assets would be charged to income in the period any such determination was made. Likewise, in the event the Company was able to realize its deferred tax assets in the future in excess of the net recorded amount, an adjustment to deferred tax assets would increase income in the period any such determination was made.

Results of Operations

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

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2003		2002		2003		2002	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenues:								
Initial license fees (ILFs).	$ 18,902	25.6%	$ 19,191	27.6%	$ 46,383	22.6%	$ 57,468	26.9%
Monthly license fees (MLFs).	21,815	29.6	19,515	28.1	63,831	31.0	61,684	28.8
Software license fees.......	40,717	55.2	38,706	55.7	110,214	53.6	119,152	55.7
Maintenance fees............	20,675	28.0	18,175	26.2	58,740	28.6	55,656	26.0
Services....................	12,382	16.8	12,572	18.1	36,559	17.8	39,119	18.3
Total revenues............	73,774	100.0	69,453	100.0	205,513	100.0	213,927	100.0
Expenses:								
Cost of software license fees......................	6,339	8.6	6,673	9.6	18,567	9.0	23,838	11.2
Cost of maintenance fees and services..............	15,082	20.4	14,953	21.5	45,583	22.2	47,366	22.1
Research and development....	9,478	12.8	8,711	12.5	25,785	12.6	26,678	12.5
Selling and marketing.......	13,686	18.6	15,264	22.0	40,951	19.9	43,002	20.1
General and administrative..	15,245	20.7	11,297	16.3	41,932	20.4	38,993	18.2
Impairment of goodwill......	9,290	12.6	-	-	9,290	4.5	-	-
Total expenses............	69,120	93.7	56,898	81.9	182,108	88.6	179,877	84.1
Operating income...............	4,654	6.3	12,555	18.1	23,405	11.4	34,050	15.9
Other income (expense):								
Interest income.............	281	0.4	404	0.6	876	0.4	1,044	0.5
Interest expense............	(682)	(0.9)	(1,313)	(1.9)	(2,425)	(1.2)	(4,376)	(2.1)
Other, net..................	225	0.3	424	0.6	(835)	(0.4)	4,022	1.9
Total other income (expense).........	(176)	(0.2)	(485)	(0.7)	(2,384)	(1.2)	690	0.3
Income before income taxes.....	4,478	6.1	12,070	17.4	21,021	10.2	34,740	16.2
Income tax provision...........	(6,331)	(8.6)	(7,066)	(10.2)	(15,809)	(7.7)	(20,528)	(9.6)
Net income (loss)..............	$ (1,853)	(2.5)%	$ 5,004	7.2%	$ 5,212	2.5%	$ 14,212	6.6%

Revenues. Total revenues for the third quarter of fiscal 2003 increased $4.3 million, or 6.2%, as compared to the same period of fiscal 2002. Total revenues for the first nine months of fiscal 2003 decreased $8.4 million, or 3.9%, as compared to the same period of fiscal 2002. The three-month increase is the result of a $2.0 million, or 5.2%, increase in software license fee revenues and a $2.5 million, or 13.8%, increase in maintenance fee revenues, offset by a $0.2 million, or 1.5%, decrease in services revenues. The nine-month decrease is the result of an $8.9 million, or 7.5%, decrease in software license fee revenues and a $2.6 million, or 6.5%, decrease in services revenues, offset by a $3.1 million, or 5.5%, increase in maintenance fee revenues. Approximately $2.3 million of the decrease in total revenues for first nine months of fiscal 2003 was due to the sale of Regency Systems, Inc. ("Regency") in February 2002, which was part of the ACI Worldwide business unit. The effect of changes in foreign currency exchange rates was to increase overall revenues by approximately $2.6 million for the nine months ended June 30, 2003, as compared to the same period of fiscal 2002.

For the third quarter ended June 30, 2003, as compared to the same period of fiscal 2002, ACI Worldwide's software license fee revenues increased due to an increase in the number and size of transaction volume upgrades, primarily in the EMEA region. For the first nine months of fiscal 2003, as compared to the same period of fiscal 2002, ACI Worldwide's software license fee revenues decreased primarily due to a shift in sales focus from the Company's more-established products to its newer BASE24-es product and its Payments Management products. As a result of this shift to newer products, absent other factors, the Company will experience a decrease in revenues due to differences in the timing of revenue recognition for the respective products. Revenues under

less-established products are typically recognized upon acceptance, or first production use by the customer due to uncertainties surrounding customer acceptance of the product, whereas revenues from mature products, such as BASE24, are generally recognized upon delivery of the product. Insession Technologies' software license fee revenues were slightly higher for the third quarter ended June 30, 2003, as compared to the same period of fiscal 2002. For the first nine months of fiscal 2003, as compared to the same period of fiscal 2002, Insession Technologies' software license fee revenues decreased primarily due to system consolidations and company consolidations. In addition, as customers within the Insession Technologies business unit renew existing contracts, the renewal contract generally has a higher proportion of the total fees that relate to maintenance. For the third quarter ended June 30, 2003, as compared to the same period of fiscal 2002, IntraNet's software license fee revenues decreased due to a decline in the number of customers migrating from the Digital VAX-based Money Transfer System ("MTS") product to the new RS6000-based MTS product. For the first nine months of fiscal 2003, as compared to the same period of fiscal 2002, IntraNet's software license fee revenues increased due to the completion of the final phase of an ACH project with a large European bank, allowing the Company to recognize approximately $3.6 million in revenues, offset by a decline in the number of customers migrating from the Digital VAX-based MTS product to the new RS6000-based MTS product.

The increase in maintenance fee revenues is primarily due to growth in the installed base of software products within the ACI Worldwide business unit, along with the higher proportion of maintenance revenues resulting from contract renewals within the Insession Technologies business unit, as discussed above, offset by decreases resulting from the sale of Regency.

The decrease in services revenues for the third quarter and first nine months of fiscal 2003, as compared to the same periods of fiscal 2002, is primarily the result of a decreased demand in the ACI Worldwide and Insession Technologies business units for technical and project management services. This decreased demand is primarily due to (1) increased competition in the marketplace by companies that offer services work at lower rates, (2) many larger customers increasing their internal staffs in order to reduce their dependence on external resources and (3) general decreases in worldwide demand for services as a result of depressed economic conditions. In addition, IntraNet's services revenues decreased for the third quarter and first nine months of fiscal 2003, as compared to the same periods in fiscal 2002, due to a decline in the number of customers migrating from the Digital VAX-based MTS product to the new RS6000-based MTS product.

Expenses. Total operating expenses for the third quarter of fiscal 2003 increased $12.2 million, or 21.5%, as compared to the same period of fiscal 2002. Total operating expenses for the first nine months of fiscal 2003 increased $2.2 million, or 1.2%, as compared to the same period of fiscal 2002. Operating expenses for the third quarter and first nine months of fiscal 2003 included a goodwill impairment charge of $9.3 million. Operating expenses decreased by approximately $4.0 million during the first nine months of fiscal 2003, as compared to the same period of fiscal 2002, due to the sale of Regency during the second quarter of fiscal 2002. Additionally, during fiscal 2002, the Company placed an emphasis on reducing overall staffing levels through attrition or delayed hiring decisions in an attempt to reduce operating expenses. The effect of changes in foreign currency exchange rates was to increase overall expenses by approximately $4.2 million for the nine months ended June 30, 2003, as compared to the same period of fiscal 2002.

Cost of software license fees for the third quarter of fiscal 2003 decreased $0.3 million, or 5.0%, as compared to the same period of fiscal 2002. Cost of software license fees for the first nine months of fiscal 2003 decreased $5.3 million, or 22.1%, as compared to the same period of fiscal 2002. The decrease in cost of software license fees for the third quarter and first nine months of fiscal 2003, as compared to the same periods of fiscal 2002, was due primarily to a decrease in amortization of software products that are now fully amortized of $0.6 million and $4.1 million, respectively, for the three and nine months ended June 30, 2003, as well as decreases in personnel-related expenses due to reduced staff levels. In addition, distributor commissions decreased due to lower revenue levels from those sources.

Cost of maintenance and services for the third quarter of fiscal 2003 increased $0.1 million, or 0.9%, as compared to the same period of fiscal 2002. Cost of maintenance and services for the first nine months of fiscal 2003 decreased $1.8 million, or 3.8%, as compared to the same period of fiscal 2002. The decrease in cost of maintenance and services for the first nine months of fiscal 2003, as compared to the same period of fiscal 2002, was primarily the result of fewer staff (internal and external) needed to support the Company's ACI Worldwide and Insession Technologies services-related business, which experienced declines in demand.

Research and development ("R&D") costs for the third quarter of fiscal 2003 increased $0.8 million, or 8.8%, as compared to the same period of fiscal 2002. Research and development ("R&D") costs for the first nine months of fiscal 2003 decreased $0.9 million, or 3.3%, as compared to the same period of fiscal 2002. R&D costs as a percentage of total revenues for the first nine months of fiscal 2003 and 2002 were 12.6% and 12.5%, respectively.

Selling and marketing costs for the third quarter of fiscal 2003 decreased $1.6 million, or 10.3%, as compared to the same period of fiscal 2002. Selling and marketing costs for the first nine months of fiscal 2003 decreased $2.1 million, or 4.8%, as compared to the same period of fiscal 2002. The decrease in selling and marketing costs for the third quarter and first nine months of fiscal 2003, as compared to the same periods of fiscal 2002, was due primarily to a decreased emphasis on advertising and promotional programs, offset by increased sales commissions. Selling and marketing costs as a percentage of total revenues for the first nine months of fiscal 2003 and 2002 were 19.9% and 20.1%, respectively.

General and administrative costs for the third quarter of fiscal 2003 increased $3.9 million, or 34.9%, as compared to the same period of fiscal 2002. General and administrative costs for the first nine months of fiscal 2003 increased $2.9 million, or 7.5%, as compared to the same period of fiscal 2002. The increase in general and administrative costs for the third quarter of fiscal 2003, as compared to the same period of fiscal 2002, is primarily due to increased bad debts expense and increased professional fees for legal, tax and other services. Bad debts expense for the third quarter of fiscal 2002 was a negative amount due to adjustments made to the allowance for doubtful accounts at that time. The increase in general and administrative costs for the first nine months of fiscal 2003, as compared to the same period of fiscal 2002, is primarily due to increased bad debts expense and increased professional fees, offset by reduced costs resulting from the sale of Regency during the second quarter of fiscal 2002.

Other Income and Expense. Interest expense for the third quarter of fiscal 2003 decreased $0.6 million, or 48.1%, as compared to the same period of fiscal 2002. Interest expense for the first nine months of fiscal 2003 decreased $2.0 million, or 44.6%, as compared to the same period of fiscal 2002. The decrease is attributable to a reduction in debt - financing agreements (balance at June 30, 2003 of $29.2 million as compared to $48.5 million at June 30, 2002) and a change in the amount of borrowings outstanding under the Company's line of credit (there were no borrowings under the line of credit during the nine months ended June 30, 2003).

Other income (net) for the third quarter of fiscal 2003 decreased $0.2 million, or 46.9%, as compared to the same period of fiscal 2002. Other income (net) for the first nine months of fiscal 2003 decreased by $4.9 million as compared to the same period of fiscal 2002. During the first nine months of fiscal 2002, the Company recorded a gain of $8.7 million from the sale of Regency offset by impairments of marketable equity securities totaling $4.7 million, which resulted in the decrease between corresponding periods.

Income Taxes. The effective tax rate for the third quarter of fiscal 2003 was approximately 141.4%, which includes the impact of a $9.3 million non-deductible goodwill impairment charge negatively impacting the effective tax rate by 95.4%, as compared to 58.5% for the same period of fiscal 2002. The effective tax rate for the first nine months of fiscal 2003 was approximately 75.2%, which includes the impact of a $9.3 million non-deductible goodwill impairment charge negatively impacting the effective tax rate by 23.0%, as compared to 59.1% for the same period of fiscal 2002. The remaining effective tax rates of 46.0% and 52.2% for the third quarter and first nine months of fiscal 2003 were primarily impacted by non-recognition of tax benefits for operating losses in certain foreign locations and recognition of a valuation allowance for foreign tax credits. The effective tax rates for the third quarter and first nine months of fiscal 2002 were primarily impacted by non-recognition of tax benefits for operating losses in certain foreign locations, recognition of a valuation allowance for foreign tax credits, foreign tax rate differentials and gain on sale of subsidiary.

Each quarter, the Company evaluates its historical operating results as well as its projections for the future to determine the realizability of its deferred tax assets. As of June 30, 2003, the Company has deferred tax assets of $35.3 million (net of $58.4 million valuation allowance). The Company analyzes the recoverability of its net deferred tax assets at each reporting period. Because unforeseen factors may affect future taxable income, additional increases to the valuation reserve may be required in future periods.

The Company has engaged tax professionals to review the Company's overall tax position and make recommendations for reducing the effective tax rate. Certain recommendations were implemented during the third

quarter of fiscal 2003, resulting in a lower effective tax rate (excluding the effects of the non-deductible goodwill impairment charge) for the third quarter and first nine months of fiscal 2003, as compared to the same periods of fiscal 2002. The improvement in the effective tax rates for the third quarter and first nine months of fiscal 2003 (excluding the effect of the non-deductible goodwill impairment charge), as compared to the same periods of fiscal 2002, resulted primarily from recognition of R&D credits and extraterritorial income exclusion benefits. The Company, with the assistance of these tax professionals, is reviewing additional options that could reduce the Company's current effective tax rate even further. However, there can be no assurance that the Company will be able to further reduce its effective tax rate, and assuming the Company is successful in reducing the rate, there can be no assurance of the timing and amount of any such reduction.

Liquidity and Capital Resources

As of June 30, 2003, the Company's principal sources of liquidity consisted of $103.7 million in cash, cash equivalents and marketable securities. The Company had a $15.0 million line of credit agreement that expired in June 2003, which was not renewed.

The Company's net cash flows provided by operating activities for the first nine months of fiscal 2003 amounted to $25.5 million as compared to $43.7 million provided by operating activities during the same period of fiscal 2002. The decrease in operating cash flows resulted primarily from changes in billed and accrued receivables, accounts payable, and income taxes.

The Company's net cash flows used in investing activities totaled $1.8 million for the first nine months of fiscal 2003 as compared to $2.2 million provided by investing activities during the same period of fiscal 2002. During the first nine months of fiscal 2003, the Company purchased software, property and equipment of $2.3 million as compared to $3.8 million for the same period of fiscal 2002. The Company also realized net proceeds of $5.4 million related to the sale of Regency during the first nine months of fiscal 2002.

The Company's net cash flows used in financing activities totaled $13.6 million for the first nine months of fiscal 2003 as compared to $19.3 million used in financing activities during the same period of fiscal 2002. In the past, an important contributor to the cash management program was the Company's factoring of future revenue streams, whereby interest in its future monthly license payments under installment or long-term payment arrangements is transferred on a non-recourse basis to third-party financial institutions in exchange for cash. The Company did not factor any future revenue streams during the first nine months of fiscal 2003. During the first nine months of fiscal 2002, the Company generated cash flows from the factoring of future revenue streams of $7.6 million. During the first nine months of fiscal 2003 and 2002, payments made to the third-party financial institutions were $14.1 million and $16.3 million, respectively. In addition, during the first nine months of fiscal 2002, the Company made payments on its line of credit facilities of $12.0 million.

The Company's net cash flows resulting from exchange rate fluctuations for the first nine months of fiscal 2003 amounted to $2.9 million as compared to $0.5 million during the same period of fiscal 2002.

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

Forward-Looking Statements

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

- The Company's calculation of backlog is based on customer contracts that exist on the date of the

calculation. A number of factors may change after the date of calculation that could result in actual revenues being less than the amounts contained in backlog. The Company's customers may attempt to renegotiate or terminate their contracts due to a number of factors, including mergers, changes in their financial condition, or general changes in economic conditions in the customer's industry or geographic location, or the Company may experience delays in the development or delivery of products or services specified in customer contracts. Accordingly, there can be no assurance that contracts included in recurring or non-recurring backlog will actually generate the specified revenues or that the actual revenues will be generated within the one-year period.

- The Securities and Exchange Commission has issued a formal order of private investigation in connection with the Company's restatement of its prior consolidated financial statements. Although the Company has fully cooperated with the SEC in this matter and intends to continue to fully cooperate, the SEC may determine that the Company has violated federal securities laws. The Company cannot predict when this investigation will be completed or what the outcome will be. If the SEC makes a determination that the Company has violated federal securities laws, the Company may face sanctions including, but not limited to, significant monetary penalties and injunctive relief. The findings and outcome of the SEC investigation may affect the class action and derivative lawsuits that are pending. There is risk that the investigation could result in substantial costs and divert management attention and resources, which could adversely affect the Company's business.

- The Company is currently in the process of evaluating the claims made in various lawsuits filed against the Company relating to its restatement of prior consolidated financial results. The Company intends to defend the foregoing lawsuits vigorously, but cannot predict the outcome and is not currently able to evaluate the likelihood of its success or the range of potential loss, if any. However, if the Company were to lose these lawsuits or if they were not settled on favorable terms, the judgment or settlement would likely have a material adverse effect on its consolidated financial position, results of operations and cash flows.

  The Company has insurance that provides an aggregate coverage of $20.0 million for the period during which the lawsuits were filed, but cannot evaluate at this time whether such coverage will be available or adequate to cover losses, if any, arising out of these lawsuits. If these policies do not adequately cover expenses and certain liabilities relating to these lawsuits, the Company's consolidated financial condition, results of operations and cash flows could be materially harmed. The Company's certificate of incorporation provides that it will indemnify and advance expenses to its directors and officers to the maximum extent permitted by Delaware law. The indemnification covers any expenses and liabilities reasonably incurred by a person, by reason of the fact that such person is or was or has agreed to be a director or officer, in connection with the investigation, defense and settlement of any threatened, pending or completed action, suit, proceeding or claim.

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

- No assurance can be given that operating results will not vary. Fluctuations in quarterly operating results may result in volatility in the Company's stock price. The Company's stock price may also be volatile, in part, due to external factors such as announcements by third parties or competitors, inherent volatility in the high-technology sector and changing market conditions in the industry. The Company's stock price may also become volatile, in part, due to the announced SEC formal order of private investigation related to the Company's restatement of its prior consolidated financial statements.

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

- The Company will continue to derive a substantial majority of its total revenue from licensing its BASE24

family of software products and providing services and maintenance related to those products. Any reduction in demand for, or increase in competition with respect to, BASE24 products would have a material adverse effect on the Company's financial condition and results of operations.

- Prior to its May 2002 merger with HP, Compaq Computer Corporation announced a plan to consolidate its high-end performance enterprise servers on the Intel Corp. Itanium microprocessor by 2004. The Company has not determined whether consolidation of the high-end servers, if it occurs as announced, will materially affect the Company's business, financial position or results of operations.

- The Company will continue to derive a substantial portion of its revenues from licensing of software products that operate on HP NonStop Himalaya servers. Any reduction in demand for these servers or in HP's ability to deliver products on a timely basis could have a material adverse effect on the Company's financial condition and results of operations.

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

Any or all of the forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many of these factors will be important in determining the Company's actual future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially from those expressed or implied in any forward-looking statements.

These cautionary statements and any other cautionary statements that may accompany such forward-looking statements, whether written or oral, expressly qualify all of the forward-looking statements. In addition, the Company disclaims any obligation to update any forward-looking statements after the date of this report unless applicable securities laws require it to do so.

Item 3. 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, 2003. The Company conducts business in all parts of the world and is thereby exposed to market risks related to fluctuations in foreign currency exchange rates. As a general rule, the Company's revenue contracts are denominated in U.S. dollars. Thus, any decline in the value of local foreign currencies against the U.S. dollar results in the Company's products and services being more expensive to a potential foreign customer, and in those instances where the Company's goods and services have already been sold, may result in the receivables being more difficult to collect. The Company does at times enter into revenue contracts that are denominated in the currency of the country in which it has substantive operations, principally the United Kingdom, Australia, Canada and Singapore. This practice serves as a natural hedge to finance the expenses incurred in those locations.

At times, the Company is exposed to market risks associated with changes in interest rates. However, the Company currently has no outstanding borrowings on its bank line of credit facilities. The Company does not utilize any derivative financial instruments for purposes of managing its interest rate risk. The Company does not purchase or hold any derivative financial instruments for the purpose of speculation or arbitrage.

Item 4. Controls and Procedures

As noted in the Company's Form 10-K for the fiscal year ended September 30, 2002 and in each Form 10-Q for the quarters ended March 31, 2003 and December 31, 2002, management and KPMG advised the Company's Audit Committee that within the 90-day period prior to the date of filing those reports, they noted deficiencies in internal controls relating to:

- revenue recognition procedures;

- formal policies and procedures for significant transactions;

- centralized oversight for international operations;

- timely reconciliation of general ledger accounts; and

- staffing and training of personnel.

KPMG has advised the Audit Committee that these internal control deficiencies constitute reportable conditions and, collectively, a material weakness as defined in Statement of Auditing Standards No. 60. Certain of these internal control weaknesses may also constitute deficiencies in the Company's disclosure controls. Within the 90-day period prior to the date of filing this quarterly report on Form 10-Q, management has advised the Company's Audit Committee that the previously noted deficiencies in internal controls continue to exist although corrective actions have been taken and additional corrective actions will be implemented in the future. The Company has performed substantial additional procedures designed to ensure that these internal control deficiencies do not lead to material misstatements in its consolidated financial statements and to enable the completion of KPMG's quarterly review of its consolidated financial statements, notwithstanding the presence of the internal control weaknesses noted above. Based upon an evaluation of these additional procedures, the Chief Executive Officer and Chief Financial Officer have concluded with reasonable assurance that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Corrective actions that have been taken by the Company are as follows:

1. The Company retained an independent accounting firm to assist in the evaluation of the Company's existing internal controls and disclosure controls and make suggestions for improvement. This evaluation includes the identification, documentation and testing of significant controls and processes. As a result of evaluations made to-date, certain internal control enhancements have been incorporated into the Company's policies and procedures;

2. The Company reviewed and revised certain of its revenue recognition practices and contracting management policies and procedures;

3. The Company has conducted formalized training of finance, sales and other staffs;

4. The Company restructured its worldwide finance organizations to report directly to corporate finance management personnel rather than business unit management personnel;

5. The Company hired a 30-year financial management veteran as its Chief Financial Officer to strengthen its financial management team. Other finance personnel have also been added to the Company's worldwide finance organizations;

6. The Company enhanced its internal audit department and hired three full-time audit professionals; and

7. The Company established a disclosure control committee to review all public reporting.

The Company intends to implement additional corrective actions to enhance the previously adopted corrective actions. In connection with the requirements of Section 404 of the Sarbanes-Oxley Act, the Company has begun to evaluate its internal controls over financial reporting and has retained an independent accounting firm to assist in this evaluation. The Company will also continue to evaluate the effectiveness of its disclosure controls and internal controls and procedures on an ongoing basis, and will take further action as appropriate.

PART II--OTHER INFORMATION

Item 1. Legal Proceedings

Class Action Litigation. Two class action complaints were filed against the Company and certain individual named defendants in connection with the Company's restatement of its prior consolidated financial statements. The two complaints are Desert Orchid Partners v. the Company, et al. and Nancy Rosen v. the Company, et al. Pursuant to a Court Order, the two suits were consolidated and, also in accordance with the Court Order, the Court-designated Lead Plaintiff, Genesee County Employees' Retirement System, filed a First Amended Consolidated Class Action Complaint on June 30, 2003 (the "Consolidated Complaint"). The Lead Plaintiff alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 thereunder, on the grounds that certain of the Company's Exchange Act reports and press releases contained untrue statements of material facts, or omitted to state facts necessary to make the statements therein not misleading, with regard to the Company's revenues and expenses during the class period. The Consolidated Complaint alleges that during the purported class period, the Company and the named officers and directors misrepresented the Company's historical financial condition, results of operations and its future prospects, and failed to disclose facts that could have indicated an impending decline in the Company's revenues. The Lead Plaintiff is seeking unspecified damages, interest, fees, costs and rescission. The class period stated in the Consolidated Complaint is January 21, 1999 through November 18, 2002. The Company and the individual defendants were granted an extension of time to file an answer to the Consolidated Complaint. An answer is due on August 20, 2003, at which time the Company and the individual defendants anticipate filing a motion to dismiss.

Derivative Litigation. On January 10, 2003, Samuel Naito filed the suit of "Samuel Naito, Derivatively on behalf of Nominal Defendant Transaction Systems Architects, Inc. v. Roger K. Alexander, Gregory D. Derkacht, Gregory J. Duman, Larry G. Fendley, Jim D. Kever, and Charles E. Noell, III and Transaction Systems Architects, Inc." in the State District Court in Douglas County, Nebraska (the "Naito matter"). The suit is a shareholder derivative action that generally alleges that the named individuals breached their fiduciary duties of loyalty and good faith owed to the Company and its shareholders by causing the Company to conduct its business in an unsafe, imprudent and unlawful manner resulting in damage to the Company. More specifically, the plaintiff alleges that the individual defendants, and particularly the members of the Company's audit committee, failed to implement and maintain an adequate internal accounting control system that would have enabled the Company to discover irregularities in its accounting procedures of certain transactions prior to August 2002, thus violating their fiduciary duties of loyalty and good faith, generally accepted accounting principles and the Company's audit committee charter. The plaintiff seeks to recover an unspecified amount of money damages allegedly sustained by the Company as a result of the individual defendants' breaches of fiduciary duties, as well as the plaintiff's costs and disbursements related to the suit.

On January 24, 2003, Michael Russiello filed the suit of "Michael Russiello, Derivatively on behalf of Nominal Defendant Transaction Systems Architects, Inc. v. Roger K. Alexander, Gregory D. Derkacht, Gregory J. Duman, Larry G. Fendley, Jim D. Kever, and Charles E. Noell, III and Transaction Systems Architects, Inc." in the State District Court in Douglas County, Nebraska (the "Russiello matter"). The suit is a shareholder derivative action that generally alleges that the named individuals breached their fiduciary duties of loyalty and good faith owed to the Company and its shareholders by causing the Company to conduct its business in an unsafe, imprudent and unlawful manner resulting in damage to the Company. More specifically, the plaintiff alleges that the individual defendants, and particularly the members of the Company's audit committee, failed to implement and maintain an adequate internal accounting control system that would have enabled the Company to discover irregularities in its accounting procedures of certain transactions prior to August 2002, thus violating their fiduciary duties of loyalty and good faith, generally accepted accounting principles and the Company's audit committee charter. The plaintiff seeks to recover an unspecified amount of money damages allegedly sustained by the Company as a result of the individual defendants' breaches of fiduciary duties, as well as the plaintiff's costs and disbursements related to the suit.

The Company filed a Motion to Dismiss in the Naito matter on February 14, 2003, and a Motion to Dismiss in the Russiello matter on February 21, 2003. A hearing was scheduled on those Motions for March 14, 2003. Just prior to that date, Plaintiffs' counsel requested that the derivative lawsuits be stayed pending a determination of an anticipated motion to dismiss to be filed in the class action lawsuits when and if service of process is achieved. The Company, by and through its counsel, agreed to that stay. As a result, no other defendants have been served

and no discovery has been commenced.

These class action and derivative lawsuits were brought in the United States District Court for the District of Nebraska and the Nebraska District Courts, respectively, and are at preliminary stages. The Company is currently in the process of preparing to respond to the claims made in the lawsuits. The Company intends to defend the foregoing lawsuits vigorously, but, since the lawsuits have only recently been filed and are in the very early stages, the Company cannot predict the outcome and is not currently able to evaluate the likelihood of success or the range of potential loss, if any, that might be incurred in connection with such actions. However, if the Company were to lose any of these lawsuits or if they were not settled on favorable terms, the judgment or settlement may have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows. The Company has insurance that provides an aggregate coverage of $20.0 million for the period during which the claims were filed, but cannot evaluate at this time whether such coverage will be available or adequate to cover losses, if any, arising out of these lawsuits.

Additional suits against the Company may be commenced in the future. The Company will fully analyze these allegations once all of the complaints are received and intends to vigorously defend against them. There is a risk that such litigation could result in substantial costs and divert management attention and resources from its business, which could adversely affect the Company's business.

Securities and Exchange Commission Investigation. In connection with the Company's restatement of its prior consolidated financial statements, the Company has been in contact with the Securities and Exchange Commission Enforcement Division. On December 9, 2002, certain of the Company's officers and external legal counsel held a telephone conference with representatives of the SEC Enforcement Division. The Company had a follow-up meeting with the SEC Enforcement Division on March 14, 2003. At this meeting, the SEC representatives asked questions about the restatement. The SEC Enforcement Division also requested that the Company provide additional written information regarding the restatement. The Company supplied this information on March 21, 2003. On August 8, 2003, the Company was informed that the SEC Enforcement Division has issued a formal order of private investigation in connection with the Company's restatement of its prior consolidated financial statements. The Company intends to cooperate fully with the SEC with respect to this investigation.

In addition to the foregoing, from time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. The Company is not currently a party to any such legal proceedings, other than as described above, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on the Company's financial condition or results of operations.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

On May 6, 2003, the Company filed a current report on Form 8-K announcing that on April 29, 2003, the Company (1) issued a press release with its results for the quarterly period ending March 31, 2003, and (2) held a teleconference and web cast discussing its financial performance for the quarterly period ending March 31, 2003. Copies of the press release and teleconference/web cast were attached thereto.

SIGNATURE

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

TRANSACTION SYSTEMS ARCHITECTS, INC.
(Registrant)

Date: August 14, 2003

By: /s/ Gregory D. Derkacht

Gregory D. Derkacht
President and Chief Executive Officer

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Gregory D. Derkacht, certify that:

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

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

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

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

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

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

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

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

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

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

Date: August 14, 2003

By: /s/ GREGORY D. DERKACHT

Gregory D. Derkacht
Chief Executive Officer, President
and Director

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David R. Bankhead, certify that:

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

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

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

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

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

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

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

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

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

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

Date: August 14, 2003

By: /s/ DAVID R. BANKHEAD

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

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Transaction Systems Architects, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory D. Derkacht, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1) The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2003

By: /s/ GREGORY D. DERKACHT

Gregory D. Derkacht
Chief Executive Officer, President and Director

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Transaction Systems Architects, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David R. Bankhead, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1) The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2003

By: /s/ DAVID R. BANKHEAD

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