

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1997

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 0-25346

TRANSACTION SYSTEMS ARCHITECTS, INC.

(Exact name of registrant specified in its charter)

DELAWARE 47-0772104
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

224 SOUTH 108TH AVENUE
SUITE 7
OMAHA, NEBRASKA 68154
(Address of principal executive offices, including zip code)

(402) 334-5101

(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
CLASS A COMMON STOCK, \$.005 PAR VALUE PER SHARE
(TITLE OF CLASS)

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

As of December 19, 1997, there were outstanding 26,924,596 shares of the Company's Class A Common Stock, par value \$.005, and 1,171,252 shares of the Company's Class B Common Stock, par value \$.005. As of that date, the aggregate market value of the shares of common stock held by nonaffiliates of the registrant (based on the last sale price of \$37.875 per share for the registrant's common stock as of such date) was \$1,064,130,243.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Stockholders of the Company to be held February 24, 1998, which will be filed with the Securities and

Exchange Commission not later than 120 days after the end of the Registrant's fiscal year.

TRANSACTION SYSTEMS ARCHITECTS, INC.
1997 FORM 10-K
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PART IV

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PART I

ITEM 1. BUSINESS

OVERVIEW

Transaction Systems Architects, Inc. ("TSA" or the "Company") develops, markets and supports a broad line of software products and services primarily focused on facilitating electronic payments and electronic commerce. The Company's software products are used to process transactions involving credit cards, debit cards, smart cards, checks, automated teller machines (ATM), point-of-sale (POS) terminals, manned teller devices, remote banking, wire transfers and automated clearing house (ACH) functions. The Company's products and services assist customers in operating large, complex networks performing such functions as transaction authorization, transaction routing, debit and credit card management, transaction settlement and reporting.

The Company is an international supplier of electronic payment software products and network integration solutions, principally for financial institutions, as well as for retailers and third-party processors. At September 30, 1997, its customers include 108 of the largest 500 banks in the world, as measured by asset size. As of September 30, 1997, the Company had 1,664 customers in 69 countries on six continents. During fiscal years 1997, 1996 and 1995, approximately 58%, 53% and 50%, respectively, of the Company's total revenues resulted from international operations and approximately 75%, 72% and 72%, respectively, of its revenues were derived from licensing the BASE24 family of products and providing related services and maintenance. BASE24 supports high volume, complex transaction processing and provides customers the flexibility to operate a wide range of terminals, switches and communications protocols. BASE24 operates in a fault-tolerant environment on Tandem computers.

The Company also markets a complementary electronic payment software product line, TRANS24, that operates on hardware platforms other than Tandem, including IBM mainframes and RISC/UNIX servers. In addition, the Company markets network connectivity software and middleware to customers in a variety of industries to help solve network integration and systems migration problems. Through its wholly-owned subsidiary, Grapevine Systems Inc., the Company markets products and services focused on high availability and on-line transaction processing systems. Through its wholly-owned subsidiary, Crystal Clear Technologies, Inc. ("Crystal Clear"), the Company markets payment systems that operate on Microsoft's Windows NT and interactive voice response products that operate on OS/2.

The Company provides specialized technical services and maintenance, principally in support of BASE24 and its other product lines. Services and maintenance fees accounted for 42%, 47% and 47% of the Company's revenues during fiscal years 1997, 1996 and 1995, respectively.

The Company was formed in November, 1993 and is largely the successor to Applied Communications, Inc. ("ACI") and Applied Communications Inc. Limited ("ACIL"), which were acquired from Tandem Computers Incorporated ("Tandem") on December 31, 1993. On January 3, 1994, the Company acquired USSI, Inc. ("USSI"). During 1996 and 1997, the Company completed several acquisitions. These have

included TXN Solution Integrators ("TXN") in June 1996, Grapevine Systems, Inc. ("Grapevine") in September 1996, Open Systems Solutions, Inc. ("OSSI") in October 1996 and Regency Voice Systems, Inc. ("RVS") in May 1997.

THE ELECTRONIC PAYMENTS MARKET

The electronic payments market is comprised of debit and credit card issuers, switch interchanges, transaction acquirers and transaction generators, including ATM networks and retail merchant locations. The routing, control and settlement of electronic payments is a complex activity due to the large number of locations and variety of devices through which transactions can be generated, the large number of

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issuers in the market, high transaction volumes, geographically dispersed networks, differing types of authorization and varied reporting requirements. Increasingly, these activities are performed online and must be conducted 24 hours a day, 7 days a week.

Electronic payments software carries transactions from the transaction generators to the acquiring institutions. The software then uses regional or national switches to access the card issuers for approval or denial of the transactions. The software returns messages to the sources, thereby completing the transactions. Electronic payments software may be required to interact with dozens of devices, switch interchanges and communication protocols around the world. The electronic payments market has expanded both domestically and internationally.

PRODUCTS AND RELATED SERVICES

The Company develops, markets and supports four product lines: (i) electronic payments software, (ii) network connectivity software and middleware, (iii) wholesale banking payments software and (iv) interactive voice response software. The Company generally grants non-exclusive, non-transferable, perpetual or monthly licenses which are computer, site or user specific.

ELECTRONIC PAYMENTS SOFTWARE

The Company has two electronic payments software product lines, BASE24 and TRANS24.

BASE24. BASE24 is an integrated family of products marketed to customers operating electronic payment networks in the banking and retail industries. The modular architecture of the products enables customers to select the application and system components that are required to operate their networks.

The Company believes that BASE24 has a more complete range of features and functions for electronic payments processing than products offered by its competitors. BASE24 allows customers to adapt to changing network needs by supporting over 40 different types of ATM and POS terminals, over 100 interchange interfaces and various authorization and reporting options. During fiscal years 1997, 1996 and 1995, the Company derived 75%, 72% and 72%, respectively, of its revenues from licensing BASE24 products and related services, including maintenance fees.

The BASE24 product line runs exclusively on Tandem computers. Tandem's parallel-processing environment offers fault-tolerance, linear expandability and distributed processing. The combination of features offered by BASE24 and Tandem are important characteristics in high volume, 24-hour per day electronic payment systems. The Company believes that equipment supplied by Tandem remains a widely accepted platform for transaction processing in the electronic payments market. There can be no assurance that Tandem will continue to achieve financial success or that its equipment will continue to be a widely accepted platform for this market.

TRANS24. TRANS24 is a family of products, marketed principally in the banking industry, that runs on a variety of hardware platforms, including IBM mainframes, and RISC/UNIX servers. During fiscal years 1997, 1996 and 1995, the Company derived 5%, 4% and 6%, respectively, of its revenues from TRANS24 product licensing and related services, including maintenance fees. The Company believes that the TRANS24 product line, utilizing a CICS middleware product, provides the Company an opportunity to diversify its platform offerings.

The TRANS24 electronic payment products support online processing of

transactions in ATM or POS environments. These products have traditionally been marketed to smaller institutions than BASE24, and in certain international markets where Tandem has limited market share. The TRANS24-Card Manager and Settlement Manager products are also marketed to customers with BASE24, as they can be interfaced to BASE24 and represent value-added services necessary to operate an electronic payments solution effectively.

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The TRANS24 product line also includes a full range of cardholder and merchant processing facilities for mid-scale to large-scale credit card issuers, including consumer application processing, cardholder billing and accounting, merchant processing and accounting, and credit collection.

NETWORK CONNECTIVITY SOFTWARE AND MIDDLEWARE

The Company markets network connectivity software which involves a set of software tools that facilitate network integration. The Company has arranged with Insession, Inc. to distribute and support its System Network Architecture (SNA) connectivity tool, known as ICE, which facilitates connectivity between Tandem and IBM computers. The Company has also developed NET24, a message-oriented middleware product that acts as the layer of software which manages the interface between application software and computer operating systems and helps customers perform network and legacy systems integration projects. During fiscal years 1997, 1996 and 1995, the Company derived 8%, 13% and 12%, respectively, of its revenues from license fees and related services, including maintenance fees, for network connectivity software and middleware.

WHOLESALE PAYMENTS SOFTWARE

The Company markets two products for processing wholesale payments, MoneyNet and CO-ach, both of which run on Tandem computers. MoneyNet offers a range of features to generate, authorize, route, settle and control wire transfer transactions in a secure, fault-tolerant environment. It is primarily used domestically and is focused on the Fedwire market, the main interbank wire transfer market in the United States.

The Company's wholesale payments product, CO-ach, represents a solution for initiating, controlling, settling and reporting ACH transactions. ACH transactions are electronic payments that replace traditional paper checks. CO-ach is targeted at large ACH originators with high transaction volumes. In addition to large domestic ACH originators, the Company is marketing CO-ach to international markets, where standards similar to those in the U.S. for automated check clearing are emerging. During fiscal years 1997, 1996 and 1995, the Company derived 5% of its revenues from the MoneyNet and CO-ach product lines.

INTERACTIVE VOICE RESPONSE SOFTWARE

The Company markets an interactive voice response (IVR) software product which allows banks to offer their customers answers to routine questions such as balance inquiry, last deposit, maturity dates, transaction history, interest information, payment dates and amounts via telephone inquiry. The IVR software product is targeted at small to mid-sized community banks and runs on personal computers. During fiscal years 1997, 1996, and 1995 the Company derived 4%, 4%, and 2%, respectively, of total revenues from the IVR product line.

SERVICES

During fiscal years 1997, 1996 and 1995, the Company generated service revenues, exclusive of maintenance fees, of \$48.4 million, \$41.6 million, and \$27.6 million, respectively, or 22.5%, 25.0% and 22.7%, respectively, of total revenues. The Company offers three different services: technical services, project management and facilities management.

TECHNICAL SERVICES. Technical services covers a variety of tasks including programming and programming support, day-to-day systems operations, network operations, help desk staffing, quality assurance testing, problem resolution, system design, and performance planning and review. Technical services are priced on a weekly basis according to the level of technical expertise required and the duration of the project. During fiscal years 1997, 1996 and 1995, technical service revenue was \$32.6 million, \$28.1 million and \$19.2 million, respectively.

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PROJECT MANAGEMENT. The Company offers a Project Management and Implementation Plan ("PMIP") which provides customers with a variety of support services, including on-site product integration reviews, project planning, training, site preparation, installation, testing and go-live support, and project management throughout the project life cycle. The Company offers additional services, if required, on a fee basis. PMIPs are offered for a fee which varies based on the level and quantity of included support services. During fiscal years 1997, 1996 and 1995, PMIP and other support services revenue was \$10.3 million, \$10.7 million and \$5.3 million, respectively.

FACILITIES MANAGEMENT. The Company offers facilities management services whereby the Company operates a customer's electronic payments system for multi-year periods. Pricing and payment terms for facilities management services vary on a case-by-case basis giving consideration to the complexity of the facility or system to be managed, the level and quantity of technical services required, and other factors relevant to the facilities management agreement. During fiscal years 1997, 1996 and 1995, facilities management revenue was \$5.5 million, \$2.8 million and \$3.1 million, respectively.

CUSTOMER SUPPORT

The Company offers its customers both a general maintenance plan and an extended service option, called the Enhanced Support Program ("ESP"). Maintenance fees, including ESP, were \$41.8 million, \$35.9 million and \$29.6 million, or 19.4%, 21.6% and 24.4% of total revenues, during fiscal years 1997, 1996 and 1995, respectively.

MAINTENANCE. After software installation and project completion, the Company provides maintenance services to customers for a monthly fee ranging from 1.0% to 1.5% of the related software price. Virtually all new customer contracts include a provision for maintenance services. Maintenance services include:

- Twenty-four hour hotline for problem resolution
- Customer account management support
- Vendor-required mandates and updates
- Product documentation
- Hardware operating system compatibility
- User group membership

Additionally, the Company provides new releases of its products on a periodic basis. Generally, new releases of the product, which may contain limited product enhancements, are included at no additional fee. However, the Company's agreements with its customers permit the Company to charge for certain product enhancements which are not provided as part of the maintenance agreement. The Company determines on a case-by-case basis for which of these enhancements it will charge an additional fee.

The Company organizes user groups, generally around geographic regions and product lines. The groups help the Company determine its product strategy, development plans and aspects of customer support.

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ENHANCED SUPPORT PROGRAM. Each ESP customer is assigned an experienced technician to work with its system. The technicians perform functions such as:

- Install and test software fixes
- Retrofit customer specific software modifications ("RPQs") into new software releases
- Answer questions and resolve problems related to RPQ code
- Maintain a detailed RPQ history
- Monitor customer problems on HELP24 hotline database on a priority basis
- Supply on-site support, available upon demand
- Perform an annual system review

CUSTOMERS

The Company's typical BASE24 customers are large financial institutions, retailers or third-party processors operating large, geographically-distributed electronic payment networks capable of capturing large volumes of transactions through many types of devices and accessing a variety of switches. At September 30, 1997, the Company's customer base includes 108 of the largest 500 banks in the world. The Company's IVR product customers are typically small to midsize banks and totaled approximately 900 at September 30, 1997.

The following table illustrates the distribution of the Company's customers by geographic region and industry segment as of September 30, 1997:

GEOGRAPHIC REGION	FINANCIAL		PROCESSORS/		OTHER	TOTAL
	INSTITUTIONS	RETAILERS	NETWORKS	MANUFACTURING		
Americas.....	1,130	52	56	4	99	1,341
Europe, Middle East and Africa (EMEA)....	100	18	26	42	48	234
Asia/Pacific.....	67	2	11	--	9	89
Total.....	1,297	72	93	46	156	1,664

SALES AND MARKETING

The Company's primary method of distribution is direct sales by employees assigned to specific regions. In addition, the Company uses distributors and sales agents to supplement its direct sales force in countries where business practices or customs make it appropriate, or where it is uneconomical to have a direct sales staff. As of September 30, 1997 the Company employed 128 people in direct sales, and had arrangements with 24 distributors and sales agents. The Company generates a majority of its sales leads through existing relationships with vendors, customers and prospects, or through referrals.

The Company's primary sales offices are located in Bahrain, Dallas, Johannesburg, London, Melbourne, Mexico City, Naples, Omaha, Oslo, Sao Paulo, Singapore, Wiesbaden, Tokyo and Toronto. The offices are responsible for direct and distributor or sales agent-facilitated sales for designated regions.

The Company distributes the products of other vendors as complements to its existing product lines. The Company is typically responsible for sales and marketing as well as first line support. These agreements are generally for a period of two to three years and involve revenue sharing based on relative responsibilities.

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RESEARCH AND DEVELOPMENT

The Company's product development efforts focus on new products and improved versions of existing products. The Company believes that the timely development of new applications and enhancements is essential to maintain its competitive position in the market.

In developing new products, the Company works closely with industry leaders to determine requirements. The Company works with device manufacturers, such as NCR and Diebold, to ensure compatibility with the latest ATM technology. The Company works with interchange vendors, such as VISA and MasterCard, to ensure compliance with new regulations or processing mandates. The Company works with platform vendors, such as Tandem and IBM, to ensure compatibility with new operating system releases and generations of hardware. Customers often provide additional information on requirements and serve as beta-test partners.

The Company's research and development staff consisted of 245 employees as of September 30, 1997. The Company's total research and development expenses, excluding capitalized software development costs were \$18.0 million, \$14.9 million and \$12.7 million during fiscal years 1997, 1996 and 1995, or 8.4%, 8.9% and 10.4% of total revenues, respectively.

BACKLOG

As of September 30, 1997, the Company had non-recurring revenue backlog of

\$27.7 million in software license fees and \$19.2 million in services. The Company includes in its non-recurring revenue backlog all fees specified in contracts which have been executed by the Company to the extent that the Company contemplates recognition of the related revenue within one year. There can be no assurance that the contracts included in non-recurring revenue backlog will actually generate the specified revenues or that the actual revenues will be generated within the one year period. As of September 30, 1996 and 1995, the Company had non-recurring revenue backlog of \$20.4 million and \$17.1 million, respectively, in software license fees and \$13.6 million and \$12.0 million, respectively, in services.

As of September 30, 1997, the Company had recurring revenue backlog of \$94.5 million. The Company defines recurring revenue backlog to be all monthly license fees, maintenance fees and facilities management fees specified in contracts which have been executed by the Company and its customers to the extent that the Company contemplates recognition of the related revenue within one year. There can be no assurance, however, that contracts included in recurring revenue backlog will actually generate the specified revenues. As of September 30, 1996 and 1995, the Company had \$71.0 million and \$53.1 million, respectively, of recurring revenue backlog.

COMPETITION

The electronic payments market is highly competitive. The Company's most significant competitors are Deluxe Electronic Payment Systems, Inc. and S2 Systems, Inc. which also offer electronic payment products. In addition, the Company encounters competition from third-party processors and from other vendors offering software on a wide range of product platforms. There is no single significant competitor in the international market.

As electronic payments transaction volumes increase and banks face higher processing costs, third-party processors will constitute stronger competition to the Company's efforts to market its solutions to smaller institutions. In the larger institution market, the Company believes that third-party processors will be less competitive since large institutions attempt to differentiate their electronic payments product offerings from their competition.

Competitive factors in the electronic payments market include breadth of product features, product quality and functionality, marketing and sales resources and customer service and support. Price has

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not historically been a significant factor in the market for the Company's products, although the Company expects that pricing pressures may increase in the future.

PROPRIETARY RIGHTS AND LICENSES

The Company relies on a combination of trade secret and copyright laws, license agreements, nondisclosure and other contractual provisions and technical measures to protect its proprietary rights. The Company distributes its software products under software license agreements which typically grant customers nonexclusive licenses to use the products. Use of the software products is usually restricted to designated computers at specified locations and is subject to terms and conditions prohibiting unauthorized reproduction or transfer of the software products. The Company also seeks to protect the source code of its software as a trade secret and as a copyrighted work.

Despite these precautions, there can be no assurance that misappropriation of the Company's software products and technology will not occur. Although the Company believes that its intellectual property rights do not infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not assert infringement claims against the Company. Further, there can be no assurance that intellectual property protection will be available for the Company's products in certain foreign countries.

EMPLOYEES

As of September 30, 1997 the Company had a total of 1,372 employees of whom 197 were engaged in administration, 248 in sales and marketing, 449 in software development and 478 in customer support. The Company's success is dependent upon its ability to attract and retain qualified employees. None of the Company's employees are subject to a collective bargaining agreement. The Company believes that its relations with its employees are good.

SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates primarily in one industry segment, which includes the development, marketing and support of software products and services primarily focused on facilitating electronic payments and electronic commerce. See Note 10 to the Company's Consolidated Financial Statements for information relating to geographic regions.

EXECUTIVE OFFICERS OF THE REGISTRANT

The Company's executive officers are as follows:

NAME	AGE	POSITION
William E. Fisher.....	51	Chief Executive Officer, President and Director
David C. Russell.....	49	Senior Vice President and Director
David P. Stokes.....	41	General Counsel and Secretary
Gregory J. Duman.....	42	Chief Financial Officer and Treasurer
Edward H. Mangold.....	52	Senior Vice President -- Americas Region
Thomas H. Boje.....	47	Vice President -- EMEA Region
Don McLarty.....	50	Vice President -- Asia/Pacific Region
Fred L. Grabher.....	46	Vice President -- Crystal Clear
Mark R. Vipond.....	38	Vice President -- USSI
Stephen J. Royer.....	39	Vice President -- Grapevine
Jeffrey S. Hale.....	39	Vice President -- Product Company
Dwight G. Hanson.....	39	Chief Accounting Officer

Mr. Fisher is President and Chief Executive Officer of TSA and Chief Executive Officer of ACI. Since joining ACI in 1987, he has served in various capacities, including Vice President of Financial Systems, Senior Vice President of Software and Services, Executive Vice President and Chief Operating Officer. Prior to joining ACI, he held the position of President for the Government Services Division of First Data Resources ("FDR"), an information processing company.

Mr. Russell was appointed President of ACI in 1996. He joined ACI in 1989 serving as Vice President of Strategic Planning, later serving as Vice President of Customer Support, Senior Vice President of Software and Services and Senior Vice President of the EFT Product Company. From 1984 to 1989, he held various operations and planning positions at FDR.

Mr. Stokes was appointed General Counsel in 1991 after joining ACI as Assistant Counsel in 1988. Prior to joining ACI, he was a partner in a private law firm in Omaha.

Mr. Duman joined ACI in 1983 as Director of Administration. He became Controller in 1985 and Vice President of Finance and Chief Financial Officer in 1991. From 1979 to 1983, he worked for Arthur Andersen & Co. as a certified public accountant.

Mr. Mangold joined ACI in 1987 and served in sales management positions prior to his appointment in 1990 as Senior Vice President of the Americas Region. From 1968 to 1987, he held various sales and management positions at Unisys, Inc.

Mr. Grabher joined ACI in 1982 in the U.S. Sales Division. From 1982 to 1990, he held various positions including Director of Sales, Vice President of Product Marketing and Vice President of Emerging Technologies. He was appointed to Vice President of Sales for the Asia/Pacific Region in 1990 and President of Crystal Clear in 1997. Prior to joining ACI, he was Vice President and Division Manager of Automated Customer Services with First National Bank in Lincoln, Nebraska.

Mr. Vipond joined ACI in 1985, and served in various capacities, including National Sales Manager of ACI Canada and Vice President of the Emerging Technologies and Network Systems Divisions prior to his appointment in 1996 as President of USSI. Prior to joining ACI, he was a Systems Engineer at IBM.

Mr. Boje joined ACI in 1983 as Director of Software Development. From 1983 through 1991 he held various positions, including Director of Customer Support and Vice President of Customer Services. From 1991 through 1993 he was an independent consultant in the electronic payment market, working on various

domestic and international projects. Mr. Boje rejoined the Company in 1994 as Vice President of Business Development and was named Managing Director of ACIL for the EMEA region in 1996. Mr. Boje is based in London.

Mr. McLarty was named Managing Director of the Asia/Pacific region in 1997. He joined ACI in 1987 serving in various sales and marketing capacities in Canada. From 1990 through 1997 he was an independent development consultant in Canada. Prior to joining ACI, Mr. McLarty held various sales and marketing positions with Tandem Computers, Air Canada, Bank of Montreal and The Bank of Nova Scotia. Mr. McLarty is based in Singapore.

Mr. Royer is President of Grapevine. He joined Grapevine in 1988 as Director of Sales and was named President in 1991. He became Vice President of TSA in September 1996. Prior to joining Grapevine, he held sales management positions at Software Alliance, ACI and IBM.

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Mr. Hale joined ACI in 1987 and served in various sales, marketing and strategic planning positions prior to his appointment in 1996 as Vice President in charge of the ACI Product Company. From 1981 to 1986, Mr. Hale was a manager in the management information consulting division of Arthur Andersen & Co.

Mr. Hanson joined ACI in 1991 as Corporate Controller. He was appointed Vice President of Finance for ACI in 1997. From 1981 to 1991, Mr. Hanson worked for Coopers & Lybrand as a Certified Public Accountant.

ITEM 2. PROPERTIES

The Company leases office space in Omaha, Nebraska, for its corporate headquarters, principal product development group, and sales and support groups for the Americas. The leases for these facilities expire in fiscal 1998 through 2003, with the principal lease terminating in fiscal 1999. Options for renewal may extend the principal lease through fiscal 2000.

The Company's EMEA headquarters are located in Watford, England. The leases for these facilities expire in fiscal 2009 and 2011, with the principal lease terminating in fiscal 2009.

The Company's Asia/Pacific headquarters are located in Singapore with other principal offices in Japan and Australia. The leases for these facilities terminate in fiscal 1998, 1999 and 1998, respectively.

The Company also leases office space in numerous locations in the United States and in many other countries.

The Company believes that its current facilities are adequate for its present and short-term foreseeable needs and that additional suitable space will be available as required. The Company also believes that it will be able to extend leases as they terminate. See Note 7 to the Company's Consolidated Financial Statements for additional information regarding the Company's obligations under its facilities leases.

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ITEM 3. LEGAL PROCEEDINGS

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 legal proceedings, 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 1997.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

On June 7, 1996, the Company's Board of Directors authorized a two-for-one stock split effected in the form of a 100% stock dividend distributed on July 1, 1996 to shareholders of record on June 17, 1996. All references in this document

to number of shares, except authorized shares and treasury shares, and per share amounts have been restated to retroactively reflect the stock split.

The Company's Common Stock is traded over-the-counter on the Nasdaq National Market ("NASDAQ/NMS") under the symbol "TSAI". The following table sets forth, for the fiscal quarters indicated, the high and low sale prices of the Class A Common Stock as reported by NASDAQ/NMS.

1997	HIGH		LOW	
First quarter.....	\$ 45	1/4	\$ 32	1/2
Second quarter.....	34	1/2	24	3/8
Third quarter.....	43		23	1/4
Fourth quarter.....	40	5/8	32	1/2

1996	HIGH		LOW	
First quarter.....	\$ 16	7/8	\$ 12	1/2
Second quarter.....	20	5/8	16	3/8
Third quarter.....	34		19	7/8
Fourth quarter.....	45	3/4	24	3/4

On December 19, 1997, the last sale price of the Company's Class A Common Stock as reported by NASDAQ/NMS was \$37.875 per share. There were 398 holders of record of the Company's Common Stock as of December 19, 1997.

DIVIDENDS

The Company has not declared or paid cash dividends on its Common Stock since its incorporation. The Company currently intends to retain earnings to finance the growth and development of its business and does not anticipate paying cash dividends in the foreseeable future. Any payment of cash dividends in the future will depend upon the financial condition, capital requirements and earnings of the Company, as well as other factors the Board of Directors may deem relevant.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data have been derived from the audited financial statements of the Company and ACI and ACIL (the "Predecessors").

The selected financial data presented below should be read in conjunction with, and are qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements of the Company and its Predecessors. The information below is not necessarily indicative of the results of future operations.

	COMPANY (2)			
	YEAR ENDED	YEAR ENDED	YEAR ENDED	NINE MONTHS
	SEPTEMBER 30, 1997	SEPTEMBER 30, 1996	SEPTEMBER 30, 1995	ENDED SEPTEMBER 30, 1994 (3)
(IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENT OF INCOME DATA:				
Revenues:				
Software license fees.....	\$121,883	\$84,521	\$59,699	\$36,992
Maintenance fees.....	41,846	35,889	29,592	18,626
Services.....	48,386	41,569	27,558	18,117
Hardware, net.....	3,351	4,388	4,554	3,702
Total revenues.....	215,466	166,367	121,403	77,437
Expenses:				
Cost of software license fees:				
Software costs.....	24,982	19,530	13,282	7,533
Amortization of purchased software(4).....	801	3,143	3,165	2,342
Purchased contracts in progress(4).....	--	--	2,956	12,398
Cost of maintenance and services.....	51,078	41,730	28,918	19,369
Research and development:				

Research and development costs.....	18,013	14,853	12,680	8,587
Charge for purchased research and development(4).....	-	-	-	22,712
Selling and marketing.....	48,098	35,299	30,608	18,677
General and administrative:				
General and administrative costs.....	34,818	27,894	19,597	13,658
Amortization of goodwill and purchased intangibles(4).....	1,008	656	344	834
Total expenses.....	178,798	143,105	111,550	106,110
Operating income (loss).....	36,668	23,262	9,853	(28,673)
Other income (expense):				
Interest income.....	2,067	1,930	1,084	416
Interest expense.....	(178)	(233)	(1,751)	(3,058)
Other income (expense).....	(666)	(625)	12	172
Total other.....	1,223	1,072	(655)	(2,470)
Income (loss) before income taxes.....	37,891	24,334	9,198	(31,143)
Provision for income taxes.....	(14,325)	(9,296)	(2,145)	(2,164)
Net income (loss) before extraordinary loss.....	23,566	15,038	7,053	(33,307)
Extraordinary loss related to early retirement of debt (4).....	--	--	(2,750)	--
Net income (loss).....	\$ 23,566	\$15,038	\$ 4,303	(\$33,307)
Shares used in per share computation (6).....	28,747	28,631	24,866	22,203
Pro forma information (5):				
Net income (loss).....	\$ 23,059	\$14,184	\$ 4,060	(\$33,307)
Net income (loss) per common and equivalent share (6):				
Before extraordinary loss.....	\$ 0.80	\$ 0.50	\$ 0.28	(\$ 1.50)
Extraordinary loss.....	--	--	(\$ 0.12)	--
Net income (loss) per common and equivalent share.....	\$ 0.80	\$ 0.50	\$ 0.16	(\$ 1.50)
BALANCE SHEET DATA:				
Working capital.....	\$ 59,270	\$40,391	\$38,153	\$ 2,037
Total assets.....	165,234	125,897	103,586	61,382
Long-term obligations.....	2,379	1,687	357	22,801
Stockholders' equity (deficit).....	104,038	76,177	60,402	(31,406)

PREDECESSORS (1)

	THREE MONTHS ENDED DECEMBER 31, 1993	YEAR ENDED SEPTEMBER 30, 1993

STATEMENT OF INCOME DATA:

Revenues:		
Software license fees.....	\$ 7,956	\$35,988
Maintenance fees.....	5,392	19,984
Services.....	4,353	12,455
Hardware, net.....	1,129	2,731
Total revenues.....	18,830	71,158
Expenses:		
Cost of software license fees:		
Software costs.....	2,713	9,390
Amortization of purchased software(4).....	1,034	4,974
Purchased contracts in progress(4).....	--	--
Cost of maintenance and services.....	5,164	17,668
Research and development:		
Research and development costs.....	1,704	5,475
Charge for purchased research and development(4).....	-	-
Selling and marketing.....	4,359	18,204
General and administrative:		
General and administrative costs.....	3,946	15,054
Amortization of goodwill and purchased intangibles(4).....	816	3,268
Total expenses.....	19,736	74,033
Operating income (loss).....	(906)	(2,875)
Other income (expense):		
Interest income.....	91	212
Interest expense.....	(34)	(137)
Other income (expense).....	-	-
Total other.....	57	75
Income (loss) before income taxes.....	(849)	(2,800)
Provision for income taxes.....	(802)	(1,590)
Net income (loss) before extraordinary loss.....	(1,651)	(4,390)
Extraordinary loss related to early retirement of debt (4).....	--	--
Net income (loss).....	(\$1,651)	(\$4,390)

Shares used in per share computation (6).....	-----	-----
Pro forma information (5):		
Net income (loss).....		
Net income (loss) per common and equivalent share (6):		
Before extraordinary loss.....		
Extraordinary loss.....		
Net income (loss) per common and equivalent share.....		
BALANCE SHEET DATA:		
Working capital.....	\$ 6,861	\$13,879
Total assets.....	47,861	57,286
Long-term obligations.....	601	672
Stockholders' equity (deficit).....	28,940	39,099

(1) The Company was formed on November 2, 1993 for the purpose of acquiring all of the outstanding capital stock of ACI and ACIL from Tandem. ACI and ACIL were acquired on December 31, 1993. On January 3, 1994, the Company acquired all of the outstanding common stock of USSI. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Overview."

(FOOTNOTES CONTINUED ON FOLLOWING PAGE)

(FOOTNOTES CONTINUED FROM PRECEDING PAGES)

- (2) The statement of income data after January 1, 1994 are not comparable to data for prior periods due to the effects of the acquisition of the Predecessors. The acquisition was accounted for as a purchase and the financial statements since the date of the acquisition are presented on the new basis of accounting established for the purchased assets and liabilities.
- (3) The financial data for the nine months ended September 30, 1994 represents the results of operations of the Company for the periods from inception (November 2, 1993) through September 30, 1994. The Company did not have substantive operations prior to the December 31, 1993 acquisition of ACI and ACIL.
- (4) These expenses are the result of certain one-time or acquisition related expenses. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Overview."
- (5) Pro forma net income (loss) and net income (loss) per common and equivalent share reflects a pro forma tax provision for RVS for combined federal and state income taxes to report income taxes on the basis of which income taxes will be reported in future periods. Prior to the stock exchange transaction, RVS was taxed primarily as a partnership and, accordingly, taxable income was included in the personal tax of RVS owners who were responsible for the payment of tax thereof.
- (6) Net income per common and equivalent share and the shares used in the per share computation have been computed on the basis described in Note 2 to the Company's Consolidated Financial Statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company was formed on November 2, 1993 for the purpose of acquiring all of the outstanding capital stock of ACI and ACIL from Tandem. ACI and ACIL were acquired on December 31, 1993. On January 3, 1994, the Company acquired all of the outstanding common stock of USSI, Inc., ("USSI") formerly known as U.S. Software, Inc. The acquisitions of ACI, ACIL and USSI are hereafter referred to as the "Acquisitions." As a result of the Acquisitions, the Company incurred certain one-time or acquisition related expenses in fiscal 1997, 1996 and 1995. These acquisition related charges included, among others purchased contracts in progress, purchased software and goodwill amortization. These expenses are hereafter referred to as the "Acquisition Charges".

On June 3, 1996, the Company acquired substantially all of the net assets of TXN Solution Integrator ("TXN"). The acquisition was accounted for as a

purchase.

On September 13, 1996, the Company and Grapevine entered into a share exchange agreement which resulted in Grapevine becoming a wholly-owned subsidiary of the Company. The share exchange was accounted for as a pooling of interests. On May 13, 1997, the Company and Regency Voice Systems, Inc. and related entities ("RVS") entered into a stock exchange agreement which resulted in RVS becoming a wholly-owned subsidiary of the Company. The stock exchange has been accounted for as a pooling of interests. The Company's financial statements have been restated to include the results of Grapevine and RVS for all periods presented.

The Company provides electronic payments software and related services. During fiscal 1997, 1996 and 1995, 58%, 53% and 50%, respectively, of total revenues resulted from international operations. The Company derived approximately 75%, 72% and 72%, respectively, of its revenues for those same periods from licensing its BASE24 family of software products and providing related services and maintenance. Although the Company believes that the majority of its revenues will continue to come from its existing BASE24 and TRANS24 products over the next several years, the Company has acquired and developed and is currently developing other software products and related services. These products are in the areas of network connectivity, middleware, remote banking, ACH and IVR.

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The following table summarizes revenues by geographic region:

	TWELVE MONTHS ENDED SEPTEMBER 30,		
	1997	1996	1995
(IN THOUSANDS)			
Americas.....	\$ 124,112	\$ 97,644	\$ 78,554
EMEA.....	64,676	47,267	31,264
Asia/Pacific.....	26,678	21,456	11,585
Total revenues.....	\$ 215,466	\$ 166,367	\$ 121,403

See Note 10 to the Company's Consolidated Financial Statements for additional information relating to geographic regions.

PRODUCT PRICING. The Company typically charges an initial license fee ("ILF") and an ongoing monthly licensing fee ("MLF") for its software products. Substantially all ILF revenue related to the transaction is recognized when the software is installed and MLF revenue is recognized on a monthly basis. A key component of the Company's strategy is to continue to seek to increase MLF revenue. MLF revenue amounted to \$32.4 million, \$22.0 million and \$13.6 million, in fiscal 1997, 1996 and 1995, respectively. ILF revenue, including software modification fees, amounted to \$89.5 million, \$62.5 million and \$46.1 million, in fiscal 1997, 1996 and 1995, respectively.

HARDWARE REVENUES. The Company has a written agreement with Tandem whereby Tandem pays commissions to the Company when the Company can demonstrate that a customer's purchase of its software resulted in that customer's purchase of hardware from Tandem. The commissions are determined as a percentage of Tandem's related hardware revenue. Commissions from Tandem amounted to \$3.4 million, \$4.4 million and \$4.6 million in fiscal 1997, 1996 and 1995, respectively. The agreement with Tandem expires on December 31, 1997. The existing agreement is expected to be replaced by an arrangement whereby Tandem will terminate the payment of commissions to the Company and replace these payments with market development funding. This market development funding is expected to be substantially less than the Company received under the prior arrangement.

PUBLIC OFFERINGS. The Company completed an initial public offering (IPO) in March 1995. The Company sold 4,825,000 shares of Class A Common Stock resulting in net proceeds to the Company, after deducting the underwriting discount and offering expenses, of approximately \$32.3 million. The Company used \$25.8 million of the IPO proceeds to repay all outstanding bank indebtedness (the "Indebtedness"). Upon repayment of the Indebtedness, the Company incurred an

extraordinary loss of \$2.7 million for the write-off of debt issuance costs of \$1.1 million and original issue discount of \$1.6 million. In August 1995, the Company completed the issuance of an additional 2,000,000 shares of Class A Common Stock through a public offering, resulting in net proceeds, after deducting the underwriting discount and offering expenses, of approximately \$22.4 million.

RESULTS OF OPERATIONS

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

(DOLLARS IN THOUSANDS)	YEAR ENDED SEPTEMBER 30,					
	1997		1996		1995	
	AMOUNT	% OF REVENUE	AMOUNT	% OF REVENUE	AMOUNT	% OF REVENUE
Revenues:						
Software license fees.....	\$ 121,883	56.6%	\$ 84,521	50.8%	\$ 59,699	49.2%
Maintenance fees.....	41,846	19.4	35,889	21.6	29,592	24.4
Services.....	48,386	22.5	41,569	25.0	27,558	22.7
Hardware, net.....	3,351	1.6	4,388	2.6	4,554	3.8
Total revenues.....	215,466	100.0	166,367	100.0	121,403	100.0
Expenses:						
Cost of software license fees:						
Software costs.....	24,982	11.6	19,530	11.7	13,282	10.9
Amortization of purchased software.....	801	0.4	3,143	1.9	3,165	2.6
Purchased contracts in progress.....	--	--	--	--	2,956	2.4
Cost of maintenance and services.....	51,078	23.7	41,730	25.1	28,918	23.8
Research and development.....	18,013	8.4	14,853	8.9	12,680	10.4
Selling and marketing.....	48,098	22.3	35,299	21.2	30,608	25.2
General and administrative:						
General and administrative costs.....	34,818	16.2	27,894	16.8	19,597	16.1
Amortization of goodwill and purchased intangibles.....	1,008	0.5	656	0.4	344	0.3
Total expenses.....	178,798	83.0	143,105	86.0	111,550	91.9
Operating income (loss).....	36,668	17.0	23,262	14.0	9,853	8.1
Other income (expense):						
Interest income.....	2,067	1.0	1,930	1.2	1,084	0.9
Interest expense.....	(178)	(0.1)	(233)	(0.1)	(1,751)	(1.4)
Other income (expense).....	(666)	(0.3)	(625)	(0.4)	12	0.0
Total other.....	1,223	0.6	1,072	0.6	(655)	(0.5)
Income before income taxes.....	37,891	17.6	24,334	14.6	9,198	7.6
Provision for income taxes.....	(14,325)	(6.6)	(9,296)	(5.6)	(2,145)	(1.8)
Net income before extraordinary loss.....	23,566	10.9	15,038	9.0	7,053	5.8
Extraordinary loss related to early retirement of debt.....	--	--	--	--	(2,750)	(2.3)
Net income.....	\$ 23,566	10.9%	\$ 15,038	9.0%	\$ 4,303	3.5%
Pro forma net income (1).....	\$ 23,059	10.7%	\$ 14,184	8.5%	\$ 4,060	3.3%

(1) Pro forma net income reflects a pro forma tax provision for RVS for combined federal and state income taxes to report income taxes on the basis of which income taxes will be reported in future periods. Prior to the stock exchange transaction, RVS was taxed primarily as a partnership and, accordingly, taxable income was included in the personal tax of RVS owners who were responsible for the payment of tax thereof.

REVENUES. Total revenues for fiscal 1997 increased 29.5% or \$49.1 million over fiscal 1996. Of this increase, \$37.3 million of the growth resulted from a 44.2% increase in software license fee revenue, \$6.8 million from a 16.4% increase in services revenue and \$6.0 million from a 16.6% increase in maintenance fee revenue.

Total revenues for fiscal 1996 increased 37.0% or \$45.0 million over fiscal 1995. Of this increase, \$24.8 million of the growth resulted from a 41.6% increase in software license fee revenue, \$14.0 million from a 50.8% increase in services revenue and \$6.3 million from a 21.3% from increase in maintenance fee revenue.

The growth in software license fee revenue in both fiscal 1997 and 1996 is primarily the result of increased demand for the Company's BASE24 products and a continued growth of the installed base of customers paying monthly license fee (MLF) revenue. Contributing to the strong demand for the Company's products is the continued world-wide growth of electronic payment transaction volume and

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the growing complexity of electronic payment systems. MLF revenue was \$32.4 million, \$22.0 million and \$13.6 million in fiscal 1997, 1996 and 1995, respectively.

The growth in service revenue in both fiscal 1997 and 1996 is the result of increased demand for technical and project management services which is a direct result of the increased installed base of the Company's BASE24 products.

The increase in maintenance fee revenue in both fiscal 1997 and 1996 is a result of the continued growth of the installed base of the Company's software products.

EXPENSES. Total operating expenses for fiscal 1997 increased 24.9% or \$35.7 million over fiscal 1996. Total operating expenses for fiscal 1996 increased 28.2% or \$31.6 million over fiscal 1995. The primary reason for the overall increase in operating expenses during fiscal 1997 and 1996 is the increase in staff required to support the increased demand for the Company's products and services. Total staff (including both employees and independent contractors) was 1,534, 1,312, and 1,080 at September 30, 1997, 1996 and 1995, respectively.

The Company's operating margin (excluding the Acquisition charges of \$0.9 million, \$3.3 million and \$6.5 million for fiscal 1997, 1996 and 1995 respectively) was 17.4%, 16.0% and 13.4% in fiscal 1997, 1996 and 1995, respectively. These improvements are primarily due to increased demand for the Company's products and the impact of the growth in the Company's MLF revenues.

The Company's gross margin (total revenues minus cost of software and cost of maintenance and services) was 64.7%, 63.2% and 65.2% in fiscal 1997, 1996 and 1995, respectively. The increase in gross margin during fiscal 1997 is primarily due to the impact of additional MLF revenue. The decline in gross margin during fiscal 1996 is primarily due to the accelerated growth in 1996 in services business which typically has a lower gross margin.

Research and development (R&D) costs as a percentage of total revenues were 8.4%, 8.9% and 10.4% in fiscal 1997, 1996 and 1995, respectively. The majority of R&D costs have been charged to expense as incurred with the capitalization of software costs amounting to approximately \$1.2 million per year. The Company expects R&D costs to remain relatively constant as a percentage of revenues.

Selling and marketing costs as a percentage of total revenues were 22.3%, 21.2% and 25.2% in fiscal 1997, 1996 and 1995, respectively. The increase in 1997 is due primarily to higher levels of license fee revenue and backlog. The decrease in 1996 is due primarily to higher levels of services revenue and services backlog which typically has a lower level of sales commission expense associated with it.

General and administrative costs as a percentage of total revenues were 16.2%, 16.8% and 16.1% in fiscal 1997, 1996 and 1995. The 1997 decrease is due primarily to higher revenue levels. The 1996 increase is due primarily to the hiring of additional staff to support the Company's growth which more than offset the impact of higher revenue levels.

EBITDA. The Company's earnings before interest, income taxes, depreciation and amortization (EBITDA) was \$46.4 million, \$33.2 million and \$20.9 million for fiscal 1997, 1996 and 1995, respectively. These increases are attributable to the continued growth in both recurring and non-recurring revenues more than offsetting the growth in operating expenses. EBITDA is not intended to represent cash flows for the periods.

OTHER INCOME AND EXPENSE. Other income and expense consists primarily of interest income derived from short-term investments and interest expense on indebtedness. The growth in interest income is due to the increase in cash and cash equivalents. The decrease in interest expense is due to the repayment of debt out of the proceeds of the Company's March 1995 public offering.

EXTRAORDINARY LOSS. In March 1995, the Company used a portion of the

proceeds from an initial public offering to repay debt obligations. Upon the repayment of debt, the Company incurred an

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extraordinary loss of \$2.7 million for the write-off of debt issuance costs of \$1.1 million and original issue discount of \$1.6 million.

INCOME TAXES. The Company had an effective tax rate of 37.8% for fiscal 1997 as compared to 38.2% for fiscal 1996. The decrease in the effective tax rate is principally due to the amount of deferred tax assets recognized in fiscal 1997 as compared to fiscal 1996.

As of September 30, 1997, the Company has deferred tax assets of approximately \$16.6 million and deferred tax liabilities of \$0.4 million. Each year, the Company evaluates its historical operating results as well as its projections to determine the realizability of the deferred tax assets. This analysis indicated that \$3.5 million of the deferred tax assets were more likely than not to be realized. Accordingly, the Company has recorded a valuation allowance of \$13.1 million as of September 30, 1997.

The Company intends to analyze the realizability of the net deferred tax assets at each future reporting period. Such analysis may indicate that the realization of various deferred tax benefits is more likely than not and, therefore, the valuation reserve may be reduced.

BACKLOG

As of September 30, 1997 and 1996, the Company had non-recurring revenue backlog of \$27.7 million and \$20.4 million in software license fees and \$19.2 million and \$13.6 million in services, respectively. The Company includes in its non-recurring revenue backlog all fees specified in contracts which have been executed by the Company to the extent that the Company contemplates recognition of the related revenue within one year. There can be no assurance that the contracts included in non-recurring revenue backlog will actually generate the specified revenues or that the actual revenues will be generated within the one year period.

As of September 30, 1997 and 1996, the Company had recurring revenue backlog of \$94.5 million and \$71.0 million, respectively. The Company defines recurring revenue backlog to be all monthly license fees, maintenance fees and facilities management fees specified in contracts which have been executed by the Company and its customers to the extent that the Company contemplates recognition of the related revenue within one year. There can be no assurance, however, that contracts included in recurring revenue backlog will actually generate the specified revenues.

YEAR 2000

Management has initiated a Company-wide program to prepare the Company's computer systems and applications as well as the Company's product offerings for the year 2000. The Company expects to incur internal staff costs as well as consulting and other expenses related to system enhancements and product modifications for the year 2000. The majority of the Company's product offerings are currently year 2000 compliant. The total cost to be incurred by the Company for all year 2000 related projects is not expected to have a material impact on the future results of operations. However there could be a material adverse effect on the results of operations of the Company if the system enhancements and product modifications for the year 2000 prove not to be effective.

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SELECTED QUARTERLY INFORMATION

The following table sets forth certain unaudited financial data for each of the quarters within fiscal 1997, 1996 and 1995. This information has been derived from the Company's Consolidated Financial Statements and in management's opinion, reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information for the quarters presented. The operating results for any quarter are not necessarily indicative of results for any future period.

QUARTER ENDED

(IN THOUSANDS)	SEP. 30, 1997	JUNE 30, 1997	MARCH 31, 1997	DEC. 31, 1996	SEP. 30, 1996	JUNE 30, 1996	MARCH 31, 1996
Revenues:							
Software license fees.....	\$32,379	\$31,186	\$31,179	\$27,139	\$24,479	\$21,545	\$20,527
Maintenance fees.....	10,815	10,746	10,179	10,106	9,847	9,173	8,494
Services.....	12,641	12,395	11,309	12,041	12,142	11,206	9,303
Hardware, net.....	1,133	881	784	553	1,109	977	1,063
Total revenues.....	56,968	55,208	53,451	49,839	47,577	42,901	39,387
Expenses:							
Cost of software license fees:							
Software costs.....	6,569	6,494	6,364	5,555	5,306	5,292	4,971
Amortization of purchased software.....	--	--	--	801	787	783	785
Purchased contracts in progress.....	--	--	--	--	--	--	--
Cost of maintenance and services.....	13,023	13,038	12,305	12,712	12,249	10,969	9,598
Research and development.....	4,692	4,618	4,624	4,079	3,886	3,499	3,873
Selling and marketing.....	13,131	12,368	12,030	10,569	10,107	8,570	8,097
General and administrative: General and administrative costs.....	8,936	8,814	8,777	8,291	7,699	7,589	6,431
Amortization of goodwill and purchased intangibles.....	344	210	237	217	204	157	145
Total expenses.....	46,695	45,542	44,337	42,224	40,238	36,859	33,900
Operating income (loss).....	10,273	9,666	9,114	7,615	7,339	6,042	5,487
Other income (expense):							
Interest income.....	570	557	498	442	343	442	577
Interest expense.....	(42)	(55)	(24)	(57)	(54)	(54)	(84)
Other income (expense).....	(84)	(38)	(227)	(317)	(445)	(99)	(51)
Total other.....	444	464	247	68	(156)	289	442
Income (loss) before income taxes.....	10,717	10,130	9,361	7,683	7,183	6,331	5,929
Benefit (provision) for income taxes.....	(3,786)	(3,793)	(3,667)	(3,079)	(2,915)	(2,393)	(2,124)
Net income (loss) before extraordinary loss.....	6,931	6,337	5,694	4,604	4,268	3,938	3,805
Extraordinary loss related to early retirement of debt.....	--	--	--	--	--	--	--
Net income (loss).....	\$6,931	\$ 6,337	\$ 5,694	\$ 4,604	\$ 4,268	\$ 3,938	\$ 3,805
Pro forma net income (loss)(1).....			\$ 5,523	\$ 4,268	\$ 3,959	\$ 3,665	\$ 3,529

(IN THOUSANDS)	DEC. 31, 1995	SEP. 30, 1995	JUNE 30, 1995	MARCH 31, 1995	DEC. 31, 1994
Revenues:					
Software license fees.....	\$17,970	\$18,339	\$14,926	\$ 13,712	\$12,722
Maintenance fees.....	8,375	7,615	7,596	7,411	6,970
Services.....	8,918	7,917	7,177	6,246	6,218
Hardware, net.....	1,239	1,271	1,200	1,033	1,050
Total revenues.....	36,502	35,142	30,899	28,402	26,960
Expenses:					
Cost of software license fees:					
Software costs.....	3,961	4,088	2,869	2,933	3,392
Amortization of purchased software.....	788	791	792	790	792
Purchased contracts in progress.....	--	--	--	631	2,325

Cost of maintenance and services.....	8,914	8,202	7,587	6,770	6,359
Research and development.....	3,595	3,602	3,668	2,791	2,619
Selling and marketing.....	8,525	9,244	7,659	7,132	6,573
General and administrative costs.....	6,175	4,969	4,708	4,802	5,118
Amortization of goodwill and purchased intangibles.....	150	50	50	103	141
Total expenses.....	32,108	30,946	27,333	25,952	27,319
Operating income (loss).....	4,394	4,196	3,566	2,450	(359)
Other income (expense):					
Interest income.....	568	464	284	186	150
Interest expense.....	(41)	(49)	(41)	(703)	(958)
Other income (expense).....	(30)	(87)	58	149	(108)
Total other.....	497	328	301	(368)	(916)
Income (loss) before income taxes.....	4,891	4,524	3,867	2,082	(1,275)
Benefit (provision) for income taxes.....	(1,864)	(1,400)	(737)	526	(534)
Net income (loss) before extraordinary loss.....	3,027	3,124	3,130	2,608	(1,809)
Extraordinary loss related to early retirement of debt.....	--	--	--	(2,750)	--
Net income (loss).....	\$ 3,027	\$ 3,124	\$ 3,130	(\$ 142)	(\$1,809)
Pro forma net income (loss) (1).....	\$ 3,031	\$ 2,981	\$ 3,030	(\$ 260)	(\$1,691)

(1) Pro forma net income reflects a pro forma tax provision for RVS for combined federal and state income taxes to report income taxes on the basis of which income taxes will be reported in future periods. Prior to the stock exchange transaction, RVS was taxed primarily as a partnership and, accordingly, taxable income was included in the personal tax of RVS owners who were responsible for the payment of tax thereof.

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LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 1997, the Company had working capital of \$59.3 million, cash and cash equivalents of \$46.6 million and a \$10 million bank line of credit of which there are no borrowings outstanding. The bank line of credit expires in June 1998.

For the year ended September 30, 1997, the Company's cash flow from operations amounted to \$30.6 million and cash used in investing activities amounted to \$18.0 million.

In the normal course of business, the Company evaluates potential acquisitions of complementary businesses, products or technologies. On October 2, 1995, the Company acquired the capital stock of a German software company for \$3.4 million. The acquisition was accounted for under the purchase accounting method and was financed with existing cash and future payments to the sellers.

In January 1996, the Company entered into a transaction with Insession, Inc. (Insession) whereby the Company acquired a 7.5% minority interest in Insession for \$1.5 million. In addition, since January 1996, the Company loaned Insession \$5.0 million under promissory notes of which Insession repaid the Company \$500,000 in June 1997. The promissory notes bear an interest rate of prime plus 0.25%, and are payable in January 1999 (\$1.0 million), January 2000 (\$1.0 million) and January 2001 (\$1.5 million). The remaining \$1.0 million of promissory notes are payable upon demand. The promissory notes are secured by future royalties owed by the Company to Insession.

On June 3, 1996, the Company acquired substantially all of the net assets of

TXN Solution Integrators (TXN) for \$3.6 million in cash and the assumption of certain liabilities of TXN. The acquisition was accounted for under the purchase accounting method and was financed with existing cash.

In August 1995, the Company entered into a transaction with U.S. Processing, Inc. (USPI), a transaction processing business, whereby it agreed to extend USPI a \$2.5 million credit facility which the Company subsequently increased to \$3.6 million during fiscal 1996. In March 1997, the Company revised the terms of the line of credit whereby the Company received \$3.6 million as repayment made under the previous line of credit. In addition, the Company converted \$1.0 million of prior advances under the line of credit into a 19.9% ownership interest in USPI. The revised line of credit provides USPI with the ability to borrow \$4.5 million from the Company. As of September 30, 1997 borrowings under the revised line of credit totaled \$2.0 million.

In fiscal year 1996, the Company acquired Grapevine in exchange for 380,441 shares of the Company's Class A Common Stock. In fiscal year 1997, the Company acquired RVS and OSSI in exchange for 1,615,383 shares and 210,000 shares, respectively, of the Company's class A Common Stock.

Management believes that the Company's working capital, cash flow generated from operations and borrowing capacity are sufficient to meet the Company's working capital requirements for the foreseeable future.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Transaction Systems Architects, Inc.:

We have audited the accompanying consolidated balance sheets of Transaction Systems Architects, Inc. (a Delaware corporation) and Subsidiaries as of September 30, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in

all material respects, the financial position of Transaction Systems Architects, Inc. and Subsidiaries as of September 30, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Omaha, Nebraska,
October 30, 1997

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TRANSACTION SYSTEMS ARCHITECTS, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS EXCEPT SHARE DATA)

	SEPTEMBER 30,	
	1997	1996
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 46,600	\$ 32,751
Billed receivables, net of allowances of \$2,220 and \$1,090, respectively.....	39,864	30,598
Accrued receivables.....	25,063	19,284
Deferred income taxes.....	3,517	4,348
Other.....	3,043	1,443
	-----	-----
Total current assets.....	118,087	88,424
Property and equipment, net.....	16,263	13,340
Software, net.....	6,105	5,424
Intangible assets, net.....	9,539	7,236
Installment receivables.....	2,394	1,593
Investments and notes receivable.....	7,969	8,105
Other.....	4,877	1,775
	-----	-----
Total assets.....	\$ 165,234	\$ 125,897
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt.....	\$ 768	\$ 1,147
Current portion of capital lease obligations.....	524	342
Accounts payable.....	7,896	8,629
Accrued employee compensation.....	5,559	5,210
Accrued liabilities.....	9,048	7,732
Income taxes.....	6,230	4,466
Deferred revenue.....	28,792	20,507
	-----	-----
Total current liabilities.....	58,817	48,033
Long-term debt.....	1,465	1,431
Capital lease obligations.....	914	256
	-----	-----
Total liabilities.....	61,196	49,720
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Redeemable Convertible Preferred Stock, \$.01 par value; 5,450,000 shares authorized; no shares issued and outstanding at September 30, 1997 and 1996		
Redeemable Convertible Class B Common Stock and Warrants, \$.005 par value; 5,000,000 shares authorized; no shares issued and outstanding at September 30, 1997 and 1996....		
Class A Common Stock, \$.005 par value; 50,000,000 shares authorized; 26,877,467 and 25,356,149 shares issued at September 30, 1997 and 1996, respectively.....	134	127
Class B Common Stock, \$.005 par value; 5,000,000 shares authorized; 1,171,252 and 2,171,252 shares issued and outstanding at September 30, 1997 and 1996, respectively.....	6	11
Additional paid-in capital.....	103,708	95,909
Accumulated translation adjustments.....	(260)	(236)
Retained earnings (accumulated deficit).....	462	(19,622)
Treasury stock, at cost, 845 shares at September 30, 1997 and 1996.....	(12)	(12)
	-----	-----
Total stockholders' equity.....	104,038	76,177
	-----	-----
Total liabilities and stockholders' equity.....	\$ 165,234	\$ 125,897
	-----	-----

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

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TRANSACTION SYSTEMS ARCHITECTS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

YEAR ENDED SEPTEMBER 30,

	1997	1996	1995
Revenues:			
Software license fees.....	\$ 121,883	\$ 84,521	\$ 59,699
Maintenance fees.....	41,846	35,889	29,592
Services.....	48,386	41,569	27,558
Hardware, net.....	3,351	4,388	4,554
Total revenues.....	215,466	166,367	121,403
Expenses:			
Cost of software license fees:			
Software costs.....	24,982	19,530	13,282
Amortization of purchased software.....	801	3,143	3,165
Purchased contracts in progress.....	--	--	2,956
Cost of maintenance and services.....	51,078	41,730	28,918
Research and development.....	18,013	14,853	12,680
Selling and marketing.....	48,098	35,299	30,608
General and administrative:			
General and administrative costs.....	34,818	27,894	19,597
Amortization of goodwill and purchased intangibles.....	1,008	656	344
Total expenses.....	178,798	143,105	111,550
Operating income.....	36,668	23,262	9,853
Other income (expense):			
Interest income.....	2,067	1,930	1,084
Interest expense.....	(178)	(233)	(1,751)
Other.....	(666)	(625)	12
Total other.....	1,223	1,072	(655)
Income before income taxes.....	37,891	24,334	9,198
Provision for income taxes.....	(14,325)	(9,296)	(2,145)
Income before extraordinary loss.....	23,566	15,038	7,053
Extraordinary loss related to early retirement of debt.....	--	--	(2,750)
Net income.....	\$ 23,566	\$ 15,038	\$ 4,303
Weighted average shares outstanding.....	28,747	28,631	24,866
Unaudited pro forma information (Note 3):			
Net income--historical.....	\$ 23,566	\$ 15,038	\$ 4,303
Tax adjustment--pro forma.....	(507)	(854)	(243)
Net income--pro forma.....	\$ 23,059	\$ 14,184	\$ 4,060
Net income per common and equivalent share--pro forma:			
Before extraordinary loss.....	\$ 0.80	\$ 0.50	\$ 0.27
Extraordinary loss.....	--	--	\$ (0.11)
Net income.....	\$ 0.80	\$ 0.50	\$ 0.16

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

TRANSACTION SYSTEMS ARCHITECTS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS EXCEPT SHARE AMOUNTS)

	CLASS A COMMON STOCK	CLASS B COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED TRANSLATION ADJUSTMENTS	RETAINED EARNINGS
Balance, September 30, 1994, as previously reported.....	\$ 8	\$ --	\$ 3,199	\$ (102)	\$ (34,608)
Adjustment for Regency Voice Systems and related entities pooling of interests.....	8	--	(153)	--	273
Balance, September 30, 1994, as restated.....	16	--	3,046	(102)	(34,335)
PIK dividends for Redeemable Convertible Preferred Stock.....	--	--	--	--	(649)
Accretion of Redeemable Convertible Preferred Stock.....	--	--	--	--	(133)
Accretion of Redeemable Convertible Class B Common Stock and Warrants.....	--	--	--	--	(244)
Sale of Class A Common Stock pursuant to initial public offering, net of issuance costs.....	12	--	32,240	--	--
Conversion of Redeemable Convertible Preferred Stock to Common Stock pursuant to initial public offering.....	23	9	27,483	--	--
Termination of redemption rights of Convertible Class B Common Stock pursuant to initial public offering.....	8	--	5,468	--	--

Exercise of Class A Common Stock Warrants.....	--	--	1,754	--	--
Sale of Class A Common Stock pursuant to public offering, net of issuance costs.....	7	(2)	22,419	--	--
Distribution to owners of Regency Voice Systems and related entities.....	--	--	--	--	(815)
Purchase of 845 shares of Class A Common Stock.....	--	--	--	--	--
Exercise of stock options.....	--	--	158	--	--
Net income.....	--	--	--	--	4,303
Translation adjustments.....	--	--	--	(252)	--
	-----	-----	-----	-----	-----
Balance, September 30, 1995.....	66	7	92,568	(354)	(31,873)
Two-for-one stock split.....	56	8	(64)	--	--
Sale of Class A Common Stock pursuant to Employee Stock Purchase Plan.....	--	--	355	--	--
Conversion of Class B Common Stock to Class A Common Stock.....	4	(4)	--	--	--
Exercise of stock options.....	1	--	1,077	--	--
Distribution to owners of Regency Voice Systems and related entities.....	--	--	--	--	(2,787)
Tax benefit of stock options exercised.....	--	--	1,973	--	--
Net income.....	--	--	--	--	15,038
Translation adjustments.....	--	--	--	118	--
	-----	-----	-----	-----	-----
Balance, September 30, 1996.....	127	11	95,909	(236)	(19,622)
Adjustment for Open Systems Solutions, Inc. pooling of interests.....	1	--	5	--	(176)
Sale of Class A Common Stock pursuant to Employee Stock Purchase Plan.....	--	--	778	--	--
Conversion of Class B Common Stock to Class A Common Stock.....	5	(5)	--	--	--
Exercise of stock options.....	1	--	1,298	--	--
Distribution to owners of Regency Voice Systems and related entities.....	--	--	--	--	(3,306)
Tax benefit of stock options exercised.....	--	--	2,586	--	--
Sale of stock options.....	--	--	3,132	--	--
Net income.....	--	--	--	--	23,566
Translation adjustments.....	--	--	--	(24)	--
	-----	-----	-----	-----	-----
Balance, September 30, 1997.....	\$ 134	\$ 6	\$ 103,708	\$ (260)	\$ 462
	-----	-----	-----	-----	-----

	TREASURY STOCK	TOTAL
	-----	-----
Balance, September 30, 1994, as previously reported.....	\$ --	\$ (31,503)
Adjustment for Regency Voice Systems and related entities pooling of interests.....	-----	128
	-----	-----
Balance, September 30, 1994, as restated.....	--	(31,375)
PIK dividends for Redeemable Convertible Preferred Stock.....	--	(649)
Accretion of Redeemable Convertible Preferred Stock.....	--	(133)
Accretion of Redeemable Convertible Class B Common Stock and Warrants.....	--	(244)
Sale of Class A Common Stock pursuant to initial public offering, net of issuance costs.....	--	32,252
Conversion of Redeemable Convertible Preferred Stock to Common Stock pursuant to initial public offering.....	--	27,515
Termination of redemption rights of Convertible Class B Common Stock pursuant to initial public offering.....	--	5,476
Exercise of Class A Common Stock Warrants.....	--	1,754
Sale of Class A Common Stock pursuant to public offering, net of issuance costs.....	--	22,424
Distribution to owners of Regency Voice Systems and related entities.....	--	(815)
Purchase of 845 shares of Class A Common Stock.....	(12)	(12)
Exercise of stock options.....	--	158
Net income.....	--	4,303
Translation adjustments.....	--	(252)
	-----	-----
Balance, September 30, 1995.....	(12)	60,402
Two-for-one stock split.....	--	--
Sale of Class A Common Stock pursuant to Employee Stock Purchase Plan.....	--	355
Conversion of Class B Common Stock to Class A Common Stock.....	--	--
Exercise of stock options.....	--	1,078
Distribution to owners of Regency Voice Systems and related entities.....	--	(2,787)
Tax benefit of stock options exercised.....	--	1,973
Net income.....	--	15,038
Translation adjustments.....	--	118
	-----	-----
Balance, September 30, 1996.....	(12)	76,177
Adjustment for Open Systems Solutions, Inc. pooling of interests.....	--	(170)
Sale of Class A Common Stock pursuant to Employee Stock Purchase Plan.....	--	778
Conversion of Class B Common Stock to Class A Common Stock.....	--	--
Exercise of stock options.....	--	1,299
Distribution to owners of Regency Voice Systems and related entities.....	--	(3,306)
Tax benefit of stock options exercised.....	--	2,586
Sale of stock options.....	--	3,132
Net income.....	--	23,566
Translation adjustments.....	--	(24)
	-----	-----
Balance, September 30, 1997.....	\$ (12)	\$ 104,038
	-----	-----

The accompanying notes are an integral part of the consolidated financial

statements.

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TRANSACTION SYSTEMS ARCHITECTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	YEAR ENDED SEPTEMBER 30,		
	1997	1996	1995
Cash flows from operating activities:			
Net income.....	\$ 23,566	\$ 15,038	\$ 4,303
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation.....	5,475	4,484	3,920
Amortization.....	4,404	5,933	5,299
Extraordinary loss.....	--	--	2,750
Increase in receivables, net.....	(15,264)	(6,952)	(7,273)
(Increase) decrease in other current assets.....	1,071	(1,158)	(1,983)
Decrease in contracts in progress.....	--	--	2,955
Increase in installment receivables.....	(801)	(88)	(458)
Increase in other assets.....	(755)	(888)	(1,861)
Increase (decrease) in accounts payable.....	(950)	2,860	(427)
Decrease in accrued employee compensation.....	145	425	618
Increase (decrease) in accrued liabilities.....	2,186	(345)	(494)
Increase (decrease) in income tax liabilities.....	3,577	2,856	(85)
Increase (decrease) in deferred revenue.....	7,973	(856)	5,352
Net cash provided by operating activities.....	30,627	21,309	12,616
Cash flows from investing activities:			
Purchases of property and equipment.....	(7,178)	(6,763)	(4,843)
Purchases of software and distribution rights.....	(7,314)	(2,691)	(1,562)
Acquisition of businesses, net of cash acquired.....	(2,612)	(5,403)	(206)
Additions to investments and notes receivable.....	(5,036)	(8,106)	(500)
Proceeds from notes receivable repayments.....	4,180	--	--
Net cash used in investing activities.....	(17,960)	(22,963)	(7,111)
Cash flows from financing activities:			
Proceeds from issuance of Redeemable Convertible Preferred Stock.....	--	--	143
Proceeds from exercise of Class A Common Stock Warrants.....	--	--	1,754
Proceeds from issuance of Class A Common Stock.....	779	355	54,839
Payment of Preferred Stock Dividends.....	--	--	(1,825)
Purchase of Treasury Stock.....	--	(2)	--
Proceeds from sale and exercise of stock options.....	5,233	1,111	--
Distribution to RVS owners.....	(3,306)	(2,787)	(815)
Proceeds from long-term debt.....	--	--	3,045
Payments of long-term debt.....	(934)	(100)	(29,750)
Payments on capital lease obligations.....	(148)	(225)	(468)
Net cash provided by (used in) financing activities.....	1,624	(1,648)	26,923
Effect of exchange rate fluctuations on cash.....	(442)	(181)	(11)
Net increase (decrease) in cash and cash equivalents.....	13,849	(3,483)	32,417
Cash and cash equivalents, beginning of period.....	32,751	36,234	3,817
Cash and cash equivalents, end of period.....	\$ 46,600	\$ 32,751	\$ 36,234
Supplemental cash flow information:			
Income taxes paid.....	\$ 8,848	\$ 7,612	\$ 2,276
Interest paid.....	\$ 175	\$ 218	\$ 1,520

Supplemental disclosure of noncash investing and financing activities:
In October 1995, the Company acquired the capital stock of M.R. GmbH, for \$1,500 cash and \$1,900 of debt. In connection with the acquisition, liabilities of \$1,200 were assumed.
In June 1996, the Company acquired substantially all assets of TXN Solution Integrators for \$3,600 in cash and assumed \$1,320 in liabilities.

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

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TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Transaction Systems Architects, Inc. (the Company or TSA) was formed on November 2, 1993, for the purpose of acquiring all of the outstanding capital stock of Applied Communications, Inc. (ACI) and Applied Communications Inc Limited (ACIL). The Company did not have substantive operations prior to the

acquisition of ACI and ACIL.

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

The Company derives a substantial portion of its revenue from licensing its BASE24 family of software products and providing services and maintenance related to those products. BASE24 products operate on Tandem computers. The Company's future results depend, in part, on market acceptance of Tandem computers and the financial success of Tandem Computers Incorporated.

The Company completed an initial public offering in March 1995. The Company sold 4,825,000 shares of Class A Common Stock resulting in net proceeds to the Company, after deducting the underwriting discount and offering expenses, of approximately \$32,300,000. In connection with the initial public offering, all outstanding warrants for the purchase of Preferred and Common Stock were exercised and all of the Company's preferred stocks and Class B Common Stock converted to Class A Common Stock, except for 3,680,000 shares of nonvoting Class B Common Stock. The Class B Common Stock is convertible into Class A Common Stock but is no longer redeemable. During 1997 and 1996, 1,000,000 shares and 800,000 shares, respectively, of Class B Common Stock were converted to Class A Common Stock.

In August 1995, the Company completed the issuance of an additional 2,000,000 Class A Common shares through a public offering, resulting in net proceeds, after deducting the underwriting discount and offering expenses, of approximately \$22,400,000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

USE OF ESTIMATES IN PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

REVENUE RECOGNITION

Software license fees are comprised of initial license fees, monthly license fees and software modification fees. Initial license fees are recognized upon installation only if no significant vendor obligations remain. Software modification fees are recognized upon installation. Monthly license fees

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TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

and maintenance fees are recognized ratably over the contract term. Services revenue is recognized as the related services are performed. Hardware revenue is comprised of commissions received on hardware sales associated with sales of the Company's software and net revenue received from hardware sales sold under original equipment manufacturer agreements. Hardware revenue is recognized when the related hardware is shipped to the customer.

In October 1997, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 97-2, "Software Revenue Recognition" (SOP 97-2). SOP 97-2 provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. SOP 97-2 applies to transactions entered into by the

Company beginning in fiscal year 1999. The Company believes that its current revenue recognition accounting policies are in substantial compliance with SOP 97-2.

SOFTWARE

The Company capitalizes certain software development costs when the resulting products reach technological feasibility and begins amortization of such costs upon the general availability of the products for licensing. Amortization of capitalized software development costs begins when the products are available for general release 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 the remaining estimated economic life of the product. Currently, estimated economic lives of three years are used on the calculation of amortization of these capitalized costs.

Purchased software is stated at cost and amortized using the straight-line method over three years.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives ranging from three to seven years. Assets under capital leases are amortized over the shorter of the asset life or the lease term.

INTANGIBLE ASSETS

Intangible assets consist of goodwill arising from acquisitions and are being amortized using the straight-line method over 10 years. As of September 30, 1997 and 1996, accumulated amortization of the intangible asset was \$1,700,000 and \$1,013,000, respectively.

TRANSLATION OF FOREIGN CURRENCIES

The Company's non-U.S. subsidiaries use as their functional currency the local currency of the countries in which they operate. Their assets and liabilities are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average rates of exchange prevailing during the period. Translation gains and losses are included as a component of equity. Transaction gains and losses related to intercompany accounts are not material and are included in the determination of net income .

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TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with original maturities of less than 90 days to be cash equivalents.

FINANCIAL INSTRUMENTS WITH MARKET RISK AND CONCENTRATIONS OF CREDIT RISK

The concentration of credit risk in the Company's receivables with respect to the financial services industry is mitigated by the Company's credit evaluation policy, reasonably short collection terms and geographical dispersion of sales transactions. The Company generally does not require collateral or other security to support accounts receivable.

NET INCOME PER COMMON AND EQUIVALENT SHARE

Net income per common and equivalent share is based on the weighted average number of common equivalent shares outstanding during each period. Common equivalent shares include Redeemable Convertible Preferred Stock and Redeemable Convertible Class B Common Stock and Warrants. Pursuant to Securities and Exchange Commission Staff Accounting Bulletin No. 83, all shares and options issued since inception (November 2, 1993) have been treated as if they were outstanding for all periods prior to December 31, 1994, including periods in which the effect is antidilutive. For periods subsequent to December 31, 1994,

net income per common and common equivalent share is determined by dividing net income by the weighted average number of shares of common stock and dilutive common equivalent shares outstanding during each period using the treasury stock method.

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 "Earnings Per Share" (SFAS No. 128), which specifies the computation, presentation and disclosure requirements for earnings per share. SFAS No. 128 is effective for periods ending after December 15, 1997 and requires retroactive restatement of prior periods earnings per share. The statement replaces the "primary earnings per share" calculation with a "basic earnings per share" and redefines the "dilutive earnings per share" computation. Adoption of the statement is not expected to have a material effect on the Company's reported income per share.

LONG-LIVED ASSETS

Effective October 1, 1996, the Company adopted Statement of Financial Accounting Standard No. 121 (SFAS No. 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." Pursuant to this Statement, companies are required to investigate potential impairments of long-lived assets, certain identifiable intangibles, and associated goodwill, when there is evidence that events or changes in circumstances have made recovery of an asset's carrying value unlikely. An impairment loss would be recognized when the sum of the expected future cash flows is less than the carrying amount of the asset. The adoption of SFAS No.121 did not have a significant impact on the Company's financial position or results of operations.

STOCK-BASED COMPENSATION

Effective October 1, 1996, the Company adopted the disclosure provisions of Statement of Financial Accounting Standards No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation". In accordance with the provisions of SFAS No. 123, the Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its employee stock option plans. Note 8 to

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TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the Consolidated Financial Statements contains a summary of the pro forma effects on reported net income and earnings per share for the years ended September 30, 1997 and 1996 based on the fair value of options and shares granted as prescribed by SFAS No. 123.

STOCK SPLIT

On June 7, 1996, the Company's Board of Directors authorized a two-for-one stock split effected in the form of a 100% stock dividend distributed on July 1, 1996 to shareholders of record on June 17, 1996. All references in the consolidated financial statements and notes to consolidated financial statements to number of shares, except authorized shares and treasury shares, and per share amounts have been restated to reflect this stock split. The par value of each class of Common Stock of \$.005 did not change.

RECLASSIFICATIONS

Certain September 30, 1996 amounts have been reclassified to conform to the September 30, 1997 presentation.

3. ACQUISITIONS

On October 2, 1995, the Company acquired the capital stock of M.R. GmbH, a German software company, for \$3.4 million. The acquisition was accounted for under the purchase method and was financed with existing cash and future payments to the sellers. Results of operations prior to the acquisition were not significant.

On June 3, 1996, the Company acquired substantially all assets of TXN Solution Integrators (TXN), a Canadian partnership, for \$3.6 million in cash and the assumption of certain liabilities of TXN. The acquisition was accounted for under the purchase method of accounting and, accordingly, the cost in excess of

the fair value of the net tangible assets acquired was allocated to software (\$350,000) and goodwill (\$2,000,000).

The following represents pro forma results of operations as if the TXN acquisition had occurred October 1, 1994 (in thousands except per share amounts):

	YEAR ENDED SEPTEMBER 30,	
	1996	1995
Revenues.....	\$ 172,231	\$ 130,266
Net income before extraordinary loss.....	14,515	7,685
Net income.....	14,515	4,692
Net income per share.....	\$ 0.51	\$ 0.19

The pro forma financial information is shown for illustrative purposes only and is not necessarily indicative of the future results of operations of the Company or results of operations of the Company that would have actually occurred had the transaction been in effect for the periods presented.

In September 1996, the Company and Grapevine Systems, Inc. (Grapevine) completed a stock exchange transaction which resulted in Grapevine becoming a wholly owned subsidiary of the Company. Stockholders of Grapevine received 380,441 shares of TSA Class A Common Stock in exchange for 100% of Grapevine's common stock. The stock exchange was accounted for as a pooling of

TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. ACQUISITIONS (CONTINUED)

interests. Accordingly the Company's financial statements were restated to include the results of Grapevine for the periods presented prior to the date of acquisition.

In October 1996, the Company and Open Systems Solutions, Inc. (OSSSI) completed a share exchange transaction which resulted in OSSSI becoming a wholly-owned subsidiary of the Company. Stockholders of OSSSI received 210,000 shares of TSA Class A Common Stock in exchange for 100% of OSSSI's common stock. The stock exchange was accounted for as a pooling of interests. OSSSI's results of operations prior to the acquisition were not material.

In May 1997, the Company and Regency Voice Systems, Inc. and related entities (RVS) completed a stock exchange transaction which resulted in RVS becoming a wholly owned subsidiary of the Company. Shareholders of RVS received 1,615,383 shares of TSA Class A Common Stock in exchange for 100% of RVS's shares. The stock exchange was accounted for as a pooling of interests. Accordingly, the Company's financial statements have been restated to include the results of RVS for all periods presented. Prior to the stock exchange, RVS was taxed primarily as a partnership. The pro forma net income in the accompanying consolidated statements of income reflects a pro forma tax provision for combined federal and state taxes for RVS's results of operations for each of the years presented.

Combined and separate results of the Company and RVS during the periods preceding the merger are listed below (in thousands). Accounting conformity adjustments were to conform RVS results of operations to the Company's accounting policies.

INTERIM PERIOD	YEAR ENDED SEPTEMBER 30,	
	1996	1995
1997		

	----- (UNAUDITED)		
Total revenues:			
Company.....	\$ 98,783	\$ 159,784	\$ 118,473
RVS.....	4,877	7,188	3,351
Accounting conformity adjustments.....	(370)	(605)	(421)
	-----	-----	-----
	\$ 103,290	\$ 166,367	\$ 121,403
	-----	-----	-----
Income before extraordinary loss:			
Company.....	\$ 8,886	\$ 12,570	\$ 6,320
RVS.....	1,917	3,073	1,154
Accounting conformity adjustments.....	(505)	(605)	(421)
	-----	-----	-----
	10,298	15,038	7,053
Extraordinary loss related to early retirement of debt.....	--	--	(2,750)
	-----	-----	-----
Net income.....	\$ 10,298	\$ 15,038	\$ 4,303
	-----	-----	-----
Unaudited pro forma information:			
Net income--historical.....	\$ 10,298	\$ 15,038	\$ 4,303
Tax adjustment--pro forma.....	(507)	(854)	(243)
	-----	-----	-----
Net income--pro forma.....	\$ 9,791	\$ 14,184	\$ 4,060
	-----	-----	-----

TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	SEPTEMBER 30,	
	1997	1996
	-----	-----
Computer equipment	\$ 22,867	\$ 17,174
Office furniture and fixtures.....	4,931	3,857
Leasehold improvements.....	3,016	1,841
Vehicles.....	1,080	1,427
	-----	-----
	31,894	24,299
Less accumulated depreciation and amortization.....	(15,631)	(10,959)
	-----	-----
Property and equipment, net.....	\$ 16,263	\$ 13,340
	-----	-----

5. SOFTWARE

Software consists of the following (in thousands):

	SEPTEMBER 30,	
	1997	1996
	-----	-----
Internally developed software.....	\$ 6,334	\$ 4,759
Purchased software.....	13,613	12,318
	-----	-----
	19,947	17,077

Less accumulated amortization.....	(13,842)	(11,653)
Software, net.....	\$ 6,105	\$ 5,424

6. DEBT

Long-term debt consists of the following (in thousands):

	SEPTEMBER 30,	
	1997	1996
Payments due to the sellers of M.R. GmbH (See Note 3), due December 1997 (\$745) and December 1998 (\$367).....	\$ 1,112	\$ 1,859
Other.....	1,121	719
	2,233	2,578
Less current portion.....	768	1,147
Long-term debt.....	\$ 1,465	\$ 1,431

In March 1995, the Company used a portion of the proceeds from an initial public offering to repay debt obligations. Upon repayment of the indebtedness, the Company incurred an extraordinary loss of \$2,750,000 for the writeoff of unamortized balances of debt issue costs of \$1,100,000 and original issue discount of \$1,650,000.

TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. DEBT (CONTINUED)

The Company has a \$10 million revolving line of credit, collateralized by accounts receivable, which expires in June 1998. The revolving line of credit requires the maintenance of a minimum working capital level of \$6 million. As of September 30, 1997 and 1996, the Company was in compliance with this covenant. There were no borrowings under the revolving line of credit during the years ended September 30, 1997 and 1996.

7. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company leases office space and equipment under operating leases which run through February 2011. Aggregate minimum lease payments under these agreements for the years ending September 30 are as follows (in thousands):

1998.....	\$ 7,146
1999.....	6,371
2000.....	4,501
2001.....	3,591
2002.....	3,250
Thereafter.....	9,503
Total.....	\$ 34,362

Total rent expense for the years ended September 30, 1997, 1996 and 1995 was, \$7,413,000, \$6,313,000 and \$4,566,000.

CAPITAL LEASES

The Company leases certain computer equipment, vehicles and office furniture under long-term capital leases. Capitalized costs and accumulated depreciation (included in property and equipment, net) consist of the following (in thousands):

	SEPTEMBER 30,	
	1997	1996
Vehicles.....	\$ 893	\$ 1,441
Computer equipment.....	1,606	485
Office furniture and fixtures.....	138	165
	-----	-----
	2,637	2,091
Less accumulated depreciation.....	(1,051)	(1,334)
	-----	-----
	\$ 1,586	\$ 757
	-----	-----

TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

A summary of future minimum lease payments under long-term capital leases together with the present value of the net minimum lease payments for the years ending September 30 are as follows (in thousands):

1998.....	\$ 632
1999.....	558
2000.....	450
2001.....	46

Total minimum lease payments.....	1,686
Amount representing interest.....	248

Present value of future minimum lease payments.....	1,438
Amount due within one year.....	524

Amount due after one year.....	\$ 914

LEGAL PROCEEDINGS

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 legal proceedings, 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.

8. STOCK-BASED COMPENSATION PLANS

STOCK INCENTIVE PLANS

The Company has a 1994 Stock Option Plan whereby 1,910,976 shares of the Company's Class B Common Stock have been reserved for issuance to eligible employees of the Company and its subsidiaries. Shares issuable upon exercise of these options will be Class A Common Stock. The stock options are granted at a price set by the Board of Directors provided that the minimum price shall be

\$2.50 per share for 955,488 shares and \$5 per share for 955,488 shares. The term of the outstanding options is ten years. The stock options vest ratably over a period of four years.

The Company has a 1996 Stock Option Plan whereby 1,008,000 shares of the Company's Class A Common Stock have been reserved for issuance to eligible employees of the Company and its subsidiaries and non-employee members of the Board of Directors. The stock options are granted at a price not less than fair market value at the time of the grant. The term of the outstanding options is ten years. The options vest annually over a period of four years.

During 1997, the Company adopted the 1997 Management Stock Option Plan whereby 1,050,000 shares of the Company's Class A Common Stock have been reserved for issuance to eligible management employees of the Company and its subsidiaries. The stock options are granted at a price not less than fair market value at the time of the grant and require the participant to pay \$3 for each share granted. The term of the outstanding options is ten years. The options vest annually over a period of four years.

TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. STOCK-BASED COMPENSATION PLANS (CONTINUED)

A summary of the stock options issued under the Stock Incentive Plans previously described and changes during the years ending September 30 are as follows:

	1997		1996		1995	
	SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE	SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE	SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding on October 1,.....	1,731,439	\$ 7.18	1,819,420	\$ 3.81	919,700	\$ 2.52
Granted.....	1,387,567	\$ 26.27	275,000	\$ 24.69	1,003,378	\$ 5.03
Exercised.....	283,862	\$ 4.57	327,673	\$ 3.47	44,254	\$ 3.57
Cancellations.....	40,707	\$ 13.83	35,308	\$ 4.94	59,404	\$ 4.50
Outstanding on September 30.....	2,794,437	\$ 16.82	1,731,439	\$ 7.18	1,819,420	\$ 3.81
Options exercisable at end of year.....	909,429	\$ 5.04	687,903	\$ 3.73	593,036	\$ 3.39
Shares available on September 30 for options that may be granted.....	516,728		816,622		45,280	
Weighted-average grant date fair value of options granted during the year -- exercise price equals stock market price at grant.....		\$ 13.01		\$ 14.02		

The following table summarizes information about stock options outstanding at September 30, 1997.

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$2.50.....	530,760	6.36	\$ 2.50	454,384	\$ 2.50
\$5.00.....	615,222	7.17	5.00	385,267	5.00
\$7.50 to \$10.125.....	14,330	7.52	8.01	7,832	7.93
\$12.00 to \$16.50.....	29,783	8.31	14.25	11,865	14.25
\$20.25 to \$25.875.....	1,245,542	9.38	24.46	45,083	25.15
\$26.50 to \$31.625.....	92,900	9.44	29.40	4,998	31.00
\$32.25 to \$37.50.....	265,900	9.70	33.40	--	--
	2,794,437	8.33	\$ 16.82	909,429	\$ 5.04

The Company has a 1996 Employee Stock Purchase Plan whereby 900,000 shares of the Company's Class A Common Stock have been reserved for sale to eligible employees of the Company and

TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. STOCK-BASED COMPENSATION PLANS (CONTINUED)

its subsidiaries. Employees may designate up to the lesser of \$5,000 or 10% of their annual compensation for the purchase of stock under this plan. The price for shares purchased under the plan is 85% of market value on the last day of the purchase period. Purchases are made at the end of each fiscal quarter. Shares issued under this plan for the years ended September 30, 1997 and 1996 totaled 27,748 and 16,745, respectively.

STOCK-BASED COMPENSATION PLANS

The Company adopted the disclosure provisions of SFAS No. 123. Accordingly, no compensation cost has been recognized for the stock incentive plans.

Had compensation expense for the Company's stock-based compensation plans been based on the fair value at the grant dates for awards under those plans consistent with the fair value based method of SFAS No. 123, the Company's net income and net income per common and equivalent share for fiscal 1997 and 1996 would approximate the pro forma amounts as follows (in thousands, except per share amounts):

	YEAR ENDED SEPTEMBER 30,	
	----- 1997	1996 -----
Net income--historical:		
As reported.....	\$ 23,566	\$ 15,038
Pro forma.....	22,253	14,884
Net income--pro forma:		
As reported.....	23,059	14,184
Pro forma.....	21,746	14,030
Net income per common and equivalent share:		
As reported.....	0.80	0.50
Pro forma.....	0.76	0.49

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for options granted in 1997 and 1996: risk-free interest rates of 6.3 percent; dividend yield of zero percent; expected lives of 5.8 years; and volatility of 38 percent. 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 during fiscal 1997 and 1996, and additional awards in future years are anticipated.

9. EMPLOYEE BENEFIT PLANS

ACI 401(K) RETIREMENT PLAN

The 401(k) Retirement Plan is a defined contribution plan covering all domestic employees of ACI. Participants may contribute up to 15% of their annual wages. ACI matches 100% of participant contributions up to a maximum of 2.5% of compensation, not to exceed \$2,500. ACI's contributions charged to expense during the years ended September 30, 1997, 1996 and 1995 were \$489,000, \$507,000 and \$466,000, respectively.

TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. EMPLOYEE BENEFIT PLANS (CONTINUED)
 ACI PROFIT SHARING PLAN AND TRUST

The ACI Profit Sharing Plan and Trust is a non-contributory profit sharing plan covering all employees of ACI provided they are at least 21 years of age and have completed one year of service. The plan provides for ACI to contribute a discretionary amount as determined annually by the Company's President and Chief Financial Officer. ACI's contributions charged to expense during the years ended September 30, 1997, 1996 and 1995 were \$480,000, \$399,000 and \$382,000, respectively.

USSI PROFIT SHARING PLAN AND TRUST

The USSI Profit Sharing Plan and Trust has both a profit sharing component and a 401(k) component. USSI contributions are discretionary. USSI's contributions charged to expense during the years ended September 30, 1997, 1996 and 1995 were \$85,000, \$90,000 and \$82,000, respectively.

GRAPEVINE 401(K) PROFIT SHARING PLAN

The Grapevine 401(k) Profit Sharing Plan is a defined contribution plan covering all employees of Grapevine. Grapevine contributions are discretionary. Employees may contribute up to 10% of their compensation. Grapevine's contributions charged to expense during the year end September 30, 1997 was \$50,000. No contributions were made by Grapevine to this plan during the years ended September 30, 1996 and 1995.

ACIL PENSION PLAN

ACIL has a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employees' compensation during employment. Contributions to the plan are determined by an independent actuary on the basis of periodic valuations using the projected unit cost method. Participants contribute 5% of their pensionable salaries and ACIL contributes at the rate of 10% of pensionable salaries. Net periodic pension expense includes the following components (in thousands):

	YEAR ENDED SEPTEMBER 30,		
	1997	1996	1995
Service cost.....	\$ 1,307	\$ 1,018	\$ 786
Interest cost on projected benefit obligation.....	830	738	542
Return on plan assets:			
Actual.....	(2,669)	(1,187)	(851)
Gain deferred.....	1,614	382	233
Amortization of unrecognized gain.....	3	(13)	(32)
Total periodic pension expense.....	\$ 1,085	\$ 938	\$ 678

TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. EMPLOYEE BENEFIT PLANS (CONTINUED)

The following table summarizes the funded status of the plan and the related amounts recognized in the Company's consolidated balance sheet (in thousands):

	SEPTEMBER 30,	
	1997	1996
Actuarial present value of benefit obligations:		
Vested.....	\$ 12,079	\$ 8,932

Non-vested.....	526	524
Accumulated benefit obligation.....	12,605	9,456
Impact of future salary increases.....	1,430	654
Projected benefit obligation.....	14,035	10,110
Plan assets at fair value, primarily investments in marketable equity securities of United Kingdom companies.....	14,955	10,762
Plan assets greater (less) than projected benefit obligation.....	919	652
Unrecognized gain.....	(2,530)	(2,113)
Accrued pension cost.....	\$ (1,611)	\$ (1,461)

The most significant actuarial assumptions used in 1997 and 1996 in determining the pension expense and funded status of the plan are as follows:

Discount rate for valuing liabilities.....	8.0%
Expected long-term rate of return on assets.....	9.0%
Rate of increase in future compensation levels.....	6.0%

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TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. SEGMENT INFORMATION

The Company operates primarily in one industry segment, which includes the development, marketing and support of on-line computer software products and services for automated electronic payment systems.

The Company operates in three geographic regions: 1) North and South America, 2) Europe, Middle East and Africa and 3) Asia/Pacific. The following table sets forth information about the Company's operations in these different geographic regions (in thousands):

	YEAR ENDED SEPTEMBER 30,		
	1997	1996	1995
Revenues from Unaffiliated Customers:			
Americas.....	\$ 124,112	\$ 97,644	\$ 78,554
Europe, Middle East and Africa.....	64,676	47,267	31,264
Asia/Pacific.....	26,678	21,456	11,585
	\$ 215,466	\$ 166,367	\$ 121,403
Intercompany revenues:			
Americas.....	\$ 26,183	\$ 13,065	\$ 6,501
Operating Income:			
Americas.....	\$ 36,871	\$ 30,565	\$ 21,795
Europe, Middle East and Africa.....	16,783	8,302	4,910
Asia/Pacific.....	8,625	6,740	1,235
	62,279	45,607	27,940
Research and Development and Corporate General and Administrative Expenses.....	(25,611)	(22,345)	(18,087)
Operating Income.....	\$ 36,668	\$ 23,262	\$ 9,853
Identifiable Assets:			
Americas.....	\$ 103,968	\$ 80,234	\$ 69,692
Europe, Middle East and Africa.....	44,497	33,706	25,936
Asia/Pacific.....	16,769	11,957	6,277
	\$ 165,234	\$ 125,897	\$ 101,905

11. INCOME TAXES

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". SFAS No. 109 is an asset and liability approach which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events which have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, SFAS No. 109 generally considers all expected future events other than enactments or changes in the tax law or rates.

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TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. INCOME TAXES (CONTINUED)

The provision for income taxes consists of the following (in thousands):

	FOR THE YEAR ENDED SEPTEMBER 30,								
	1997			1996			1995		
	CURRENT	DEFERRED	TOTAL	CURRENT	DEFERRED	TOTAL	CURRENT	DEFERRED	TOTAL
Federal.....	\$ 7,022	\$ 1,355	\$ 8,377	\$ 6,209	\$ (2,066)	\$ 4,143	\$ 1,145	\$ (1,327)	
State.....	1,905	240	2,145	1,933	(71)	1,862	753	--	
Foreign.....	3,803	--	3,803	3,291	--	3,291	1,793	(219)	
Total.....	\$ 12,730	\$ 1,595	\$ 14,325	\$ 11,433	\$ (2,137)	\$ 9,296	\$ 3,691	\$ (1,546)	

	TOTAL
Federal.....	\$ (182)
State.....	753
Foreign.....	1,574
Total.....	\$ 2,145

The difference between the income tax provision computed at the statutory federal income tax rate and the financial statement provision for income taxes is summarized as follows:

	FOR THE YEAR ENDED SEPTEMBER 30,		
	1997	1996	1995
Tax expense at federal rate of 35% for 1997 and 34% for 1996 and 1995.....	\$ 13,262	\$ 8,274	\$ 2,192
Losses with no current tax benefit.....	1,503	239	872
Effective state income tax.....	1,394	1,140	497
Foreign tax rate differential.....	1,160	--	--
RVS nontaxable income.....	(663)	(750)	(210)
Recognition of deferred income tax assets previously reserved against.....	(2,979)	--	(1,844)
Amortization of intangibles.....	--	578	731
Other.....	648	(185)	(93)
	\$ 14,325	\$ 9,296	\$ 2,145

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TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. INCOME TAXES (CONTINUED)

The deferred tax assets and liabilities result from differences in the timing of the recognition of certain income and expense items for tax and financial accounting purposes. The sources of these differences are as follows (in thousands):

	SEPTEMBER 30,	
	1997	1996
Deferred assets:		
Depreciation.....	\$ 226	\$ 431
Amortization.....	4,959	5,850
Foreign taxes.....	1,210	3,754
Acquired net operating loss carryforward of USSI.....	1,157	1,200
Net operating loss carryforward.....	1,715	594
Acquired basis in partnership assets.....	6,613	--
Other.....	717	539
	16,597	12,368
Deferred tax asset valuation allowance.....	(13,080)	(8,021)
Deferred liabilities:		
Acquired software.....	--	(171)
Other.....	(438)	(493)
	(438)	(664)
	\$ 3,079	\$ 3,683

For income tax purposes, the Company had foreign tax credit carryforwards of approximately \$113,000 at September 30, 1997, which expire in 2001.

At September 30, 1997, management evaluated its 1997 and 1996 operating results as well as its future tax projections and concluded that it was more likely than not that certain of the deferred tax assets would be realized. Accordingly, the Company has recognized a deferred tax asset of \$3.5 million as of September 30, 1997.

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TRANSACTION SYSTEMS ARCHITECTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. QUARTERLY FINANCIAL DATA (IN THOUSANDS, EXCEPT PER SHARE DATA, AND UNAUDITED)

	THREE MONTHS ENDED			
	DECEMBER 31	MARCH 31	JUNE 30	SEPTEMBER 30
1997				
Total revenues.....	\$ 49,839	\$ 53,451	\$ 55,208	\$ 56,968
Operating income.....	7,615	9,114	9,666	10,273
Net Income--historical.....	4,604	5,694	6,337	6,931
Net Income per share--historical.....	--	--	0.22	0.24
Pro forma information:				
Tax adjustment--pro forma.....	\$ (336)	\$ (171)	--	--
Net income--pro forma.....	4,268	5,523	--	--
Net income per share--pro forma.....	0.15	0.19	--	--
1996				
Total revenues.....	\$ 36,502	\$ 39,387	\$ 42,901	\$ 47,577
Operating income.....	4,394	5,487	6,042	7,339
Net income--historical.....	3,027	3,805	3,938	4,268
Pro forma information:				
Tax adjustment--pro forma.....	\$ 4	\$ (276)	\$ (273)	\$ (309)
Net income--pro forma.....	3,031	3,529	3,665	3,959
Net income per share--pro forma.....	.11	.12	.13	.14

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

See the Proxy Statement for the Company's 1997 Annual Meeting of Stockholders, which information is incorporated herein by reference. Certain

information with respect to persons who are or may be deemed to be executive officers of the registrant is set forth under the caption "Executive Officers of the Registrant" in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

See the Proxy Statement for the Company's 1997 Annual Meeting of Stockholders, which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

See the Proxy Statement for the Company's 1997 Annual Meeting of Stockholders, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See the Proxy Statement for the Company's 1997 Annual Meeting of Stockholders, which information is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES & REPORTS ON FORM 8-K

(1) FINANCIAL STATEMENTS

The financial statements filed as part of this report are listed on the Index to Financial Statements on page 21.

(2) FINANCIAL STATEMENT SCHEDULES:

Index to Consolidated Financial Statement Schedules

PAGE

Report of Independent Public Accountants.....	47
Schedule II -- Valuation and Qualifying Accounts.....	48

All other Schedules have been omitted because the required information is shown in the consolidated financial statements or notes thereto or they are not applicable.

(3) REPORTS ON FORM 8-K

None.

(4) EXHIBITS:

EXHIBIT NUMBER	DESCRIPTION
2.01(2)	Senior Convertible Preferred Stock and Warrant Purchase Agreement among ACI Holding, Inc. and the Several Named Purchasers Named therein, dated as of December 31, 1993
2.02(2)	Stock Purchase Agreement between and among Tandem Computers Incorporated, Tandem Computers Limited, Applied Communications, Inc., Applied Communications Inc Limited and ACI Holding, Inc., dated November 8, 1993, and amendments thereto
2.03(2)	Stock Purchase Agreement between and among U S Software Holding, Inc., Michael J. Scheier, Trustee, Michael J. Scheier and ACI Holding, Inc., dated December 13, 1993, and amendments thereto
2.04(2)	Stock and Warrant Holders Agreement, dated as of December 30, 1993
2.05(2)	Credit Agreement among ACI Transub, Inc., ACI Holding, Inc., certain lenders and Continental Bank N.A., as Agent, dated December 31, 1993, including Amendment No. 1 to Credit Agreement and Amendment No. 2 to Credit Agreement and Consent
2.06(2)	Letter Agreement among ACI Holding, Inc., Alex. Brown and Sons, Incorporated and Kirkpatrick Pettis Smith Polian, Inc., and amendment thereto
2.07(2)	ACI Management Group Investor Subscription Agreement, dated as of December 30, 1993
2.08(3)	Asset Purchase Agreement Between 1176484 Ontario Inc. and TXN Solution Integrations dated June 3, 1996
2.09(4)	Stock Exchange Agreement by and among the Company, Grapevine Systems, Inc. and certain principal shareholders of Grapevine Systems, Inc., dated as of July 15, 1996
2.10(9)	Stock Exchange Agreement dated April 17, 1997 by and among the Company and Regency Voice Systems, Inc. and related entities.
3.01(2)	Amended and Restated Certificate of Incorporation of the Company, and amendments thereto
3.02(2)	Amended and Restated Bylaws of the Company

4.01(2) Form of Common Stock Certificate
10.01(2) ACI Holding, Inc. 1994 Stock Option Plan and UK Sub-Plan
10.02(2) ACI Holding, Inc. Employees Stock Purchase Plan
10.03(2) Applied Communications, Inc. First Restated Profit Sharing Plan and Trust
10.04(2) Applied Communications, Inc. Profit Sharing/401(k) Plan and Amendment No. 1 thereto
10.05(2) U.S. Software, Inc. Profit Sharing Plan and Trust
10.06(7) Consulting Agreement between Transaction Systems Architects, Inc. and Michael J. Scheier and U.S. Software Holding dated December 31, 1995
10.07 Transaction Systems Architects, Inc. 1996 Stock Option Plan
(10.08-10.12 intentionally omitted.)
10.13(2) Voting Agreement among ACI Holding, Inc. and certain investors, dated as of December 30, 1993
10.14(2) Registration Rights Agreement between ACI Holding, Inc. and certain stockholders, dated December 30, 1993
(10.15-10.16 intentionally omitted.)

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EXHIBIT NUMBER	DESCRIPTION
10.17(2)	Lease respecting facility at 330 South 108th Avenue, Omaha, Nebraska
10.18(2)	Lease respecting facility at 218 South 108th Avenue, Suite 3, Omaha, Nebraska
10.19(2)	Lease respecting facility at 230 South 108th Avenue, Suite 3, Omaha, Nebraska
10.20(2)	Lease respecting facility at 230 South 108th Avenue (North half), Omaha, Nebraska
10.21(5)	Lease respecting facility at 206 South 108th Avenue, Omaha, Nebraska
10.22(2)	Lease respecting facility at 2200 Abbott Drive, Carter Lake, Iowa
10.23(5)	Lease respecting facility at 182 Clemenceau Avenue, Singapore
10.24(8)	Transaction Systems Architects, Inc. 1997 Management Stock Option Plan
10.25(1)	Leases respecting facility at 55 and 59 Clarendon Road, Watford, United Kingdom
10.26(6)	Revolving Conditional Line of Credit Agreement with Norwest Bank Nebraska, N.A.
10.27(2)	Software House Agreement, as amended, between Tandem Computers Incorporated and Applied Communications, Inc.
10.28(1)	Lease respecting facility at 236 South 108th Avenue, Suite 2, Omaha, Nebraska
10.29(3)	Second Amendment to Software House Agreement between Tandem Computers Incorporated and Applied Communications, Inc.
21.01(4)	Subsidiaries of the Company
23.01	Consent of Independent Public Accountants
27.00	Financial Data Schedule
99.01	Safe Harbor for Forward-Looking Statements under the Private Securities Litigation Reform Act of 1995

- (1) Incorporated by reference to the exhibit of the same number to the Registration Statement No. 33-94338 on Form S-1.
- (2) Incorporated by reference to the exhibit of the same number to the Registrant's Registration Statement No. 33-88292 on Form S-1.
- (3) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K dated June 3, 1996.
- (4) Incorporated by reference to the exhibit of the same number to the Registrant's Registration Statement No. 333-09811 on Form S-4.
- (5) Incorporated by reference to the exhibit of the same number to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1995.
- (6) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1996.
- (7) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended December 31, 1995.
- (8) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 1997.
- (9) Incorporated by reference to the exhibit of the same number to the Registrants Current Report on Form 8 K dated May 13, 1997.

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SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) 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 on December 22, 1997.

TRANSACTION SYSTEMS ARCHITECTS, INC.

By /s/ WILLIAM E. FISHER

William E. Fisher,
DIRECTOR AND PRESIDENT

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on December 22, 1997:

/s/ WILLIAM E. FISHER	
-----	Director and President
William E. Fisher	(Principal Executive Officer)
/s/ GREGORY J. DUMAN	
-----	Chief Financial Officer (Principal
Gregory J. Duman	Financial Officer)
/s/ DWIGHT HANSON	
-----	Vice President (Principal Accounting
Dwight Hanson	Officer)
/s/ DAVID C. RUSSELL	
-----	Director
David C. Russell	
/s/ PROMOD HAQUE	
-----	Director
Promod Haque	
/s/ CHARLES E. NOELL, III	
-----	Director
Charles E. Noell, III	
/s/ JIM D. KEVER	
-----	Director
Jim D. Kever	
/s/ LARRY G. FENDLEY	
-----	Director
Larry G. Fendley	

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULE OF
TRANSACTION SYSTEMS ARCHITECTS, INC.

To the Board of Directors of
Transaction Systems Architects, Inc.:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of Transaction Systems Architects, Inc. and Subsidiaries included in this Form 10-K and have issued our report thereon dated October 30, 1997. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of Transaction Systems Architects, Inc. listed in Item 14 of Part IV of this Form 10-K is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Omaha, Nebraska,
October 30, 1997

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SCHEDULE II

TRANSACTION SYSTEMS ARCHITECTS, INC.

VALUATION AND QUALIFYING ACCOUNTS
ALLOWANCE FOR DOUBTFUL ACCOUNTS

	FOR THE YEAR ENDED SEPTEMBER 30, 1997	FOR THE YEAR ENDED SEPTEMBER 30, 1996	FOR THE YEAR ENDED SEPTEMBER 30, 1995
Balance, beginning of period.....	\$ 1,090,000	\$ 912,000	\$ 1,373,000
Additions charged to expense.....	1,512,000	414,000	151,000
Reductions.....	(382,000)	(236,000)	(612,000)
Balance, end of period.....	\$ 2,220,000	\$ 1,090,000	\$ 912,000

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
2.01(2)	Senior Convertible Preferred Stock and Warrant Purchase Agreement among ACI Holding, Inc. and the Several Named Purchasers Named therein, dated as of December 31, 1993
2.02(2)	Stock Purchase Agreement between and among Tandem Computers Incorporated, Tandem Computers Limited, Applied Communications, Inc., Applied Communications Inc Limited and ACI Holding, Inc., dated November 8, 1993, and amendments thereto
2.03(2)	Stock Purchase Agreement between and among U S Software Holding, Inc., Michael J. Scheier, Trustee, Michael J. Scheier and ACI Holding, Inc., dated December 13, 1993, and amendments thereto
2.04(2)	Stock and Warrant Holders Agreement, dated as of December 30, 1993
2.05(2)	Credit Agreement among ACI Transub, Inc., ACI Holding, Inc., certain lenders and Continental Bank N.A., as Agent, dated December 31, 1993, including Amendment No. 1 to Credit Agreement and Amendment No. 2 to Credit Agreement and Consent
2.06(2)	Letter Agreement among ACI Holding, Inc., Alex. Brown and Sons, Incorporated and Kirkpatrick Pettis Smith Polian, Inc., and amendment thereto
2.07(2)	ACI Management Group Investor Subscription Agreement, dated as of December 30, 1993
2.08(3)	Asset Purchase Agreement Between 1176484 Ontario Inc. and TXN Solution Integrations dated June 3, 1996
2.09(4)	Stock Exchange Agreement by and among the Company, Grapevine Systems, Inc. and certain principal shareholders of Grapevine Systems, Inc., dated as of July 15, 1996
2.10(9)	Stock Exchange Agreement dated April 17, 1997 by and among the Company and Regency Voice Systems, Inc. and related entities.
3.01(2)	Amended and Restated Certificate of Incorporation of the Company, and amendments thereto
3.02(2)	Amended and Restated Bylaws of the Company
4.01(2)	Form of Common Stock Certificate
10.01(2)	ACI Holding, Inc. 1994 Stock Option Plan and UK Sub-Plan
10.02(2)	ACI Holding, Inc. Employees Stock Purchase Plan
10.03(2)	Applied Communications, Inc. First Restated Profit Sharing Plan and Trust
10.04(2)	Applied Communications, Inc. Profit Sharing/401(k) Plan and Amendment No. 1 thereto
10.05(2)	U.S. Software, Inc. Profit Sharing Plan and Trust
10.06(7)	Consulting Agreement between Transaction Systems Architects, Inc. and Michael J. Scheier and U.S. Software Holding dated December 31, 1995
10.07	Transaction Systems Architects, Inc. 1996 Stock Option Plan
(10.08-10.12 intentionally omitted.)	
10.13(2)	Voting Agreement among ACI Holding, Inc. and certain investors, dated as of December 30, 1993
10.14(2)	Registration Rights Agreement between ACI Holding, Inc. and certain stockholders, dated December 30, 1993
(10.15-10.16 intentionally omitted)	
10.17(2)	Lease respecting facility at 330 South 108th Avenue, Omaha, Nebraska

EXHIBIT NUMBER	DESCRIPTION
10.18(2)	Lease respecting facility at 218 South 108th Avenue, Suite 3, Omaha, Nebraska
10.19(2)	Lease respecting facility at 230 South 108th Avenue, Suite 3, Omaha, Nebraska
10.20(2)	Lease respecting facility at 230 South 108th Avenue (North half), Omaha, Nebraska
10.21(5)	Lease respecting facility at 206 South 108th Avenue, Omaha, Nebraska
10.22(2)	Lease respecting facility at 2200 Abbott Drive, Carter Lake, Iowa
10.23(5)	Lease respecting facility at 182 Clemenceau Avenue, Singapore
10.24(8)	Transaction Systems Architects, Inc. 1997 Management Stock Option Plan
10.25(1)	Leases respecting facility at 55 and 59 Clarendon Road, Watford, United Kingdom
10.26(6)	Revolving Conditional Line of Credit Agreement with Norwest Bank Nebraska, N.A.
10.27(2)	Software House Agreement, as amended, between Tandem Computers Incorporated and Applied Communications, Inc.
10.28(1)	Lease respecting facility at 236 South 108th Avenue, Suite 2, Omaha, Nebraska
10.29(3)	Second Amendment to Software House Agreement between Tandem Computers Incorporated and
21.01(4)	Subsidiaries of the Company
23.01	Consent of Independent Public Accountants
27.00	Financial Data Schedule
99.01	Safe Harbor for Forward-Looking Statements under the Private Securities Litigation Reform Act of 1995

-
- (1) Incorporated by reference to the exhibit of the same number to the Registration Statement No. 33-94338 on Form S-1.
 - (2) Incorporated by reference to the exhibit of the same number to the Registrant's Registration Statement No. 33-88292 on Form S-1.
 - (3) Incorporated by reference to the exhibit of the same number to the Registrant's Current Report on Form 8-K dated June 3, 1996.
 - (4) Incorporated by reference to the exhibit of the same number to the Registrant's Registration Statement No. 333-09811 on Form S-4.
 - (5) Incorporated by reference to the exhibit of the same number to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1995.
 - (6) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1996.
 - (7) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended December 31, 1995.
 - (8) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 1997.
 - (9) Incorporated by reference to the exhibit of the same number to the Registrants Current Report on Form 8 K dated May 13, 1997.

TRANSACTION SYSTEMS ARCHITECTS, INC.

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

CERTAIN CAUTIONARY STATEMENTS AND
RISK FACTORS

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

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

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

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

RELIANCE ON BASE24; LACK OF PRODUCT DIVERSIFICATION

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

INTERNATIONAL OPERATIONS

The Company has derived a majority of its total revenues from sales to customers outside the United States. International operations generally are subject to certain risks, including difficulties in staffing and management, reliance on independent distributors, fluctuations in foreign currency exchange rates, compliance with foreign regulatory requirements, variability of foreign economic conditions and changing restrictions imposed by U.S. export laws. There can be no assurance that the Company will be able to manage the risks related to selling its products and services in international markets.

DEPENDENCE ON BANKING INDUSTRY

The Company's business is concentrated in the banking industry, making the Company susceptible to a downturn in that industry. For example, a decrease in bank spending for software and related services could result in a smaller

overall market for electronic payment software. Furthermore, U.S. banks are continuing to consolidate, decreasing the overall potential number of buyers for the Company's products and services. These factors as well as others negatively affecting the banking industry could have a material adverse effect on the Company's financial condition and results of operations.

RELATIONSHIP WITH TANDEM

Historically, the Company has derived a substantial portion of its total revenues from the licensing of software products that operate on Tandem computers. The BASE24 product line runs exclusively on Tandem computers. These products are expected to provide a substantial portion of the Company's revenues in the foreseeable future. The Company's future results depend on market acceptance of Tandem computers and the financial success of Tandem. Any reduction in demand for these computers or in Tandem'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.

Although the Company has several written agreements with Tandem, none of those agreements governs the primary relationship between the Company and Tandem, which is that the Company's major product line, BASE24, runs exclusively on Tandem computers. While the cooperation and past affiliation between the Company and Tandem have facilitated the Company's ability to develop and market Tandem-compatible products, this cooperation is not mandated by contract, and the cessation of such cooperation would adversely affect the Company's business. None of the Company's agreements with Tandem would protect the Company if Tandem's cooperation ceased or if Tandem were unable to deliver products on a timely basis. The written agreements cover such discrete matters as commissions on the sale of certain Tandem products and the distribution of the Company's products by Tandem affiliates in a limited number of countries.

MANAGEMENT OF GROWTH

The Company is experiencing a period of growth which is placing demands on its managerial and operations resources. The Company's inability to manage its growth effectively or to maintain its current level of growth could have a material adverse effect on its financial condition and results of operations.

ATTRACTION AND RETENTION OF KEY PERSONNEL

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

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COMPETITION

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

operations could be adversely affected.

NEW PRODUCTS AND TECHNOLOGICAL CHANGE

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

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

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

A substantial majority of the Company's license fee revenue is generated by licenses for software products designed to run on fault-tolerant or mainframe computers. Industry sources indicate that sales of mainframe computers are declining on a unit basis, and the Company expects this trend to continue. The Company has developed, and continues to develop, certain products for other platforms, but to date revenues from these products have not been significant. There can be no assurance that the Company will be successful in selling these software products or other products under development. The Company's failure in this regard could have a material adverse effect on its financial condition and results of operations.

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DEPENDENCE ON PROPRIETARY TECHNOLOGY

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

VARIABILITY OF QUARTERLY OPERATING RESULTS

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

CUSTOMER CANCELLATION OF CONTRACTS

The Company derives a substantial portion of its total revenues from maintenance fees and monthly software license fees pursuant to contracts which the customer has the right to cancel. A substantial number of cancellations of these maintenance or monthly license fee contracts would have a material adverse effect on the Company's financial condition and results of operations.

POSSIBLE VOLATILITY OF STOCK PRICE

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

CONTROL BY EXISTING STOCKHOLDERS

The Company's directors and officers and their affiliates in the aggregate beneficially own a substantial percentage of the outstanding Class A Common Stock. As a result, these stockholders, if acting together, would be able to influence most matters requiring approval by the Company's stockholders, including the election of directors. In addition, the Company's Certificate of Incorporation contains provisions that may discourage acquisition bids for the Company. The effect of such provisions may be to limit the price that investors might be willing to pay in the future for shares of the Class A Common Stock.

YEAR 2000

Management has initiated a Company-wide program to prepare the Company's computer systems and applications as well as the Company's product offerings for the year 2000. The Company expects to incur internal staff costs as well as consulting and other expenses related to system enhancements and product modifications for the year 2000. The majority of the Company's product offerings are currently year 2000 compliant. The total cost to be incurred by the Company for all year 2000 related projects is not expected to have a material impact on the future results of operations. However there could be a material adverse effect on the results of operations of the Company if the system enhancements and product modifications for the year 2000 prove not to be effective.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statement File No. 33-93900, Registration Statement File No. 333-2592, Registration Statement File No. 333-2594, Registration Statement File No. 333-09811, Registration Statement File No. 333-22473 and Registration Statement File No. 333-24279

ARTHUR ANDERSEN LLP

Omaha, Nebraska,

December 19, 1997

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