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

FORM 10-Q

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

For the quarterly period ended June 30, 2004

Commission File Number 0-25346

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

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

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

Yes x No ___

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

Yes x No ___

As of July 30, 2004, there were 37,468,785 shares of the registrant's Class A Common Stock, par value $.005 per share, outstanding (excluding 1,476,145 shares held as Treasury Stock, and including 3,668 options to purchase shares of the registrant's Class A Common Stock at an exercise price of one cent per share).

TABLE OF CONTENTS


| | Page |
|---|---|
| PART I - FINANCIAL INFORMATION | |
| Item 1. Financial Statements | 1 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 13 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 23 |
| Item 4. Controls and Procedures | 23 |
| PART II - OTHER INFORMATION | |
| Items 1, 2, 3, 4 and 5. Not Applicable. | |
| Item 6. Exhibits and Reports on Form 8-K | 24 |

Signature........................................................... 25

==================================================================================

## PART I - FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

| | Page |
|---|---|
| Condensed Consolidated Balance Sheets as of June 30, 2004 and September 30, 2003 | 2 |
| Condensed Consolidated Statements of Operations for the three and nine months ended June 30, 2004 and 2003 | 3 |
| Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2004 and 2003 | 4 |
| Notes to Condensed Consolidated Financial Statements | 5 |

TRANSACTION SYSTEMS ARCHITECTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

| | June 30, 2004 (Unaudited) | September 30, 2003 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 158,859 | $ 113,986 |
| Marketable securities | - | 1,296 |
| Billed receivables, net of allowances of $4,435 and $4,037, respectively | 49,998 | 42,225 |
| Accrued receivables | 7,560 | 9,592 |
| Recoverable income taxes | 10,434 | 11,985 |
| Deferred income taxes, net | 3,135 | 10,316 |
| Other | 6,168 | 5,104 |
| Total current assets | 236,154 | 194,504 |
| Property and equipment, net | 8,458 | 9,405 |
| Software, net | 1,386 | 2,319 |
| Goodwill | 46,684 | 46,425 |
| Deferred income taxes, net | 21,122 | 9,638 |
| Other | 1,354 | 1,609 |
| Total assets | $ 315,158 | $ 263,900 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Current portion of debt - financing agreements | $ 8,211 | $ 15,493 |
| Accounts payable | 6,195 | 6,965 |
| Accrued employee compensation | 11,488 | 9,822 |
| Accrued liabilities | 11,902 | 9,714 |
| Deferred revenue | 82,756 | 70,798 |
| Other | 101 | 628 |
| Total current liabilities | 120,653 | 113,420 |
| Debt - financing agreements | 3,634 | 9,444 |
| Deferred revenue | 15,688 | 17,689 |
| Other | 780 | 473 |
| Total liabilities | 140,755 | 141,026 |
| Commitments and contingencies (Note 8) | | |
| Stockholders' equity: | | |
| Class A Common Stock, $.005 par value; 50,000,000 shares authorized; 38,944,930 and 37,660,731 shares issued at June 30, 2004 and September 30, 2003, respectively | 195 | 188 |
| Treasury stock, at cost, 1,476,145 shares | (35,258) | (35,258) |
| Additional paid-in capital | 252,811 | 235,767 |
| Accumulated deficit | (32,923) | (69,602) |
| Accumulated other comprehensive loss, net | (10,422) | (8,221) |
| Total stockholders' equity | 174,403 | 122,874 |
| Total liabilities and stockholders' equity | $ 315,158 | $ 263,900 |

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

TRANSACTION SYSTEMS ARCHITECTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Revenues: | | | | |
| Software license fees | $ 37,549 | $ 40,717 | $121,162 | $110,214 |
| Maintenance fees | 23,087 | 20,675 | 66,770 | 58,740 |
| Services | 11,896 | 12,382 | 35,144 | 36,559 |
| Total revenues | 72,532 | 73,774 | 223,076 | 205,513 |
| Expenses: | | | | |
| Cost of software license fees | 6,280 | 6,339 | 19,108 | 18,567 |
| Cost of maintenance and services | 13,390 | 15,082 | 43,108 | 45,583 |
| Research and development | 9,303 | 9,478 | 28,308 | 25,785 |
| Selling and marketing | 16,030 | 13,686 | 45,947 | 40,951 |
| General and administrative | 14,554 | 15,245 | 44,056 | 41,932 |
| Impairment of goodwill | - | 9,290 | - | 9,290 |
| Total expenses | 59,557 | 69,120 | 180,527 | 182,108 |
| Operating income | 12,975 | 4,654 | 42,549 | 23,405 |
| Other income (expense): | | | | |
| Interest income | 354 | 281 | 1,226 | 876 |
| Interest expense | (284) | (682) | (1,196) | (2,425) |
| Other, net | 995 | 225 | 3,069 | (835) |
| Total other income (expense) | 1,065 | (176) | 3,099 | (2,384) |
| Income before income taxes | 14,040 | 4,478 | 45,648 | 21,021 |
| Income tax (provision) benefit | 4,622 | (6,331) | (8,969) | (15,809) |
| Net income (loss) | $ 18,662 | $ (1,853) | $ 36,679 | $ 5,212 |
| Earnings (loss) per share information: | | | | |
| Weighted average shares outstanding: | | | | |
| Basic | 37,277 | 35,571 | 36,833 | 35,489 |
| Diluted | 38,352 | 35,571 | 38,009 | 35,601 |
| Earnings (loss) per share: | | | | |
| Basic | $ 0.50 | $ (0.05) | $ 1.00 | $ 0.15 |
| Diluted | $ 0.49 | $ (0.05) | $ 0.97 | $ 0.15 |

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

TRANSACTION SYSTEMS ARCHITECTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

| | Nine Months Ended June 30, 2004 | Nine Months Ended June 30, 2003 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 36,679 | $ 5,212 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 3,212 | 3,804 |
| Amortization | 1,839 | 3,151 |
| Loss on sale of marketable equity securities | 107 | 84 |
| Impairment of goodwill | - | 9,290 |
| Deferred income taxes | (4,135) | 9,828 |
| Tqx benefit of stock options exercised | 4,001 | 176 |
| Changes in operating assets and liabilities: | | |
| Billed and accrued receivables, net | (3,751) | (763) |
| Other current and noncurrent assets | (4,232) | (3,687) |
| Accounts payable | (1,078) | 410 |
| Current income taxes | 1,551 | (4,398) |
| Deferred revenue | 7,433 | 4,391 |
| Other current and noncurrent liabilities | 3,028 | (1,441) |
| Net cash provided by operating activities | 44,654 | 26,057 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment, net | (2,099) | (1,972) |
| Purchases of software and distribution rights | (454) | (367) |
| Proceeds from sales of marketable securities | 1,375 | 629 |
| Net cash used in investing activities | (1,178) | (1,710) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of Class A Common Stock | 719 | 789 |
| Proceeds from sale and exercise of stock options | 12,231 | 318 |
| Payments on debt - financing agreements | (13,092) | (14,725) |
| Other | (474) | (611) |
| Net cash used in financing activities | (616) | (14,229) |
| Effect of exchange rate fluctuations on cash | 2,013 | 2,881 |
| Net increase in cash and cash equivalents | 44,873 | 12,999 |
| Cash and cash equivalents, beginning of period | 113,986 | 87,894 |
| Cash and cash equivalents, end of period | $ 158,859 | $ 100,893 |

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## 1. Summary of Significant Accounting Policies

### Nature of Business

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

### Condensed Consolidated Financial Statements

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The condensed consolidated financial statements at June 30, 2004, and for the three and nine months ended June 30, 2004 and 2003, are unaudited and reflect all adjustments (consisting only of normal recurring adjustments except as otherwise discussed herein) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. Certain amounts previously reported have been reclassified to conform to the current period presentation.

The condensed consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2003. The results of operations for the three and nine months ended June 30, 2004, are not necessarily indicative of the results that may be achieved for the entire fiscal year ending September 30, 2004.

### Use of Estimates in Preparation of Condensed Consolidated Financial Statements

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

### Revenue Recognition, Accrued Receivables and Deferred Revenue

Software License Fees. The Company recognizes software license fee revenue in accordance with American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, "Software Revenue Recognition," SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions," Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements," and SAB 104, "Revenue Recognition." For software license arrangements for which services rendered are not considered essential to the functionality of the software, the Company recognizes revenue upon delivery, provided (1) there is persuasive evidence of an arrangement, (2) collection of the fee is considered probable, and (3) the fee is fixed or determinable. In most arrangements, vendor-specific objective evidence ("VSOE") of fair value does not exist for the license element; therefore, the Company uses the residual method under SOP 98-9 to determine the amount of revenue to be allocated to the license element. Under SOP 98-9, the fair value of all undelivered elements, such as postcontract customer support (maintenance or "PCS") or other products or services, is deferred and subsequently recognized as the products are delivered or the services are performed, with the residual difference between the total arrangement fee and revenues allocated to undelivered elements being allocated to the delivered element.

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

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

SOP 97-2 requires the seller of software that includes PCS to establish VSOE of fair value of the undelivered element of the contract in order to account separately for the PCS revenue. For certain of the Company's products, VSOE of the fair value of PCS is determined by a consistent pricing of PCS and PCS renewals as a percentage of the software license fees. In other products, the Company determines VSOE by reference to contractual renewals, when the renewal terms are substantive. In those cases where VSOE of the fair value of PCS is determined by reference to contractual renewals, the Company considers factors such as whether the period of the initial PCS term is relatively long when compared to the term of the software license or whether the PCS renewal rate is significantly below the Company's normal pricing practices.

Certain of the Company's software arrangements include payment terms that are enforceable only upon the passage of time or customer acceptance. For software license arrangements in which the Company's ability to enforce payment terms depends on customer acceptance provisions, software license fee revenue is recognized upon the earlier of the point at which (1) the customer accepts the software products or (2) the acceptance provisions lapse. Revenues from less-established products are typically recognized upon acceptance or first production use by the customer due to uncertainties surrounding customer acceptance of the product.

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

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

Maintenance Fees. Revenues for PCS are recognized ratably over the maintenance term specified in the contract. In arrangements where VSOE of fair value of PCS cannot be determined (for example, a time-based software license with a duration of one year or less), the Company recognizes revenue for the entire arrangement ratably over the PCS term.

Services. The Company provides various professional services to customers, primarily project management, software implementation and software modification services. Revenues from arrangements to provide professional services are generally recognized as the related services are performed. For those arrangements in which services revenue is deferred and the Company determines that the costs of installation services are recoverable, such costs are capitalized and subsequently expensed in proportion to the services revenue as it is recognized.

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

Deferred Revenue. Deferred revenue includes (1) amounts currently due and payable from customers, and payments received from customers, for software licenses, maintenance and/or services in advance of providing the product or performing services, (2) amounts deferred whereby VSOE of the fair value of undelivered elements in a bundled arrangement does not exist, and (3) amounts deferred if other conditions for revenue recognition have not been met.

Stock-Based Compensation Plans

The Company accounts for its stock-based compensation plans under the intrinsic value method in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," and follows the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." The Company calculates stock-based compensation pursuant to the disclosure provisions of SFAS No. 123 using the straight-line method over the vesting period of the option. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant date of the stock options awarded under those plans, consistent with the fair value method of SFAS No. 123, the Company's net income and earnings per share for the three and nine months ended June 30, 2004 and 2003 would have approximated the following pro forma amounts (in thousands, except per share amounts):

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Net income: | | | | |
| As reported | $ 18,662 | $ (1,853) | $ 36,679 | $ 5,212 |
| Deduct: stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects | (648) | (1,427) | (1,860) | (4,455) |
| Add: stock-based employee compensation expense recorded under intrinsic value based method, net of related tax effects | 19 | - | 71 | - |
| Pro forma | $ 18,033 | $ (3,280) | $ 34,890 | $ 757 |
| Earnings per share: | | | | |
| Basic, as reported | $ 0.50 | $ (0.05) | $ 1.00 | $ 0.15 |
| Basic, pro forma | $ 0.48 | $ (0.09) | $ 0.95 | $ 0.02 |
| Diluted, as reported | $ 0.49 | $ (0.05) | $ 0.97 | $ 0.15 |
| Diluted, pro forma | $ 0.47 | $ (0.09) | $ 0.92 | $ 0.02 |

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model, a pricing model acceptable under SFAS No. 123, with the following weighted-average assumptions:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Expected life | 3.4 | 6.0 | 3.8 | 6.0 |
| Interest rate | 3.4% | 3.2% | 2.9% | 3.2% |
| Volatility | 93.3% | 45.0% | 87.8% | 45.0% |
| Dividend yield | - | - | - | - |

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. Additional future awards are anticipated.

2. Goodwill and Software

Changes to the carrying amount of goodwill during the nine months ended June 30, 2004 resulted primarily from foreign currency translation adjustments. The gross carrying amount and accumulated amortization of the Company's intangible assets that are subject to amortization at each balance sheet date, consisting only of software, are as follows (in thousands):

| | June 30, 2004 | Sept. 30, 2003 |
|---|---|---|
| Internally-developed software | $ 15,852 | $ 15,725 |
| Purchased software | 45,222 | 44,186 |
| | 61,074 | 59,911 |
| Less: accumulated amortization | (59,688) | (57,592) |
| Software, net | $ 1,386 | $ 2,319 |

Amortization of software is computed using the greater of the ratio of current revenues to total estimated revenues expected to be derived from the software or the straight-line method over an estimated useful life of three years. Software amortization expense recorded in the three and nine months ended June 30, 2004 was $0.4 million and $1.3 million, respectively. Based on capitalized software at June 30, 2004, and assuming no impairment of these software assets, estimated amortization expense for the remainder of fiscal 2004 and in succeeding fiscal years is as follows (in thousands):

| | |
|---|---|
| 2004 | $ 462 |
| 2005 | 522 |
| 2006 | 266 |
| 2007 | 116 |
| Thereafter | 20 |

3. Corporate Restructuring Charges and Asset Impairment Losses

During fiscal 2001, the Company closed, or significantly reduced the size of, certain product development organizations and geographic sales offices, resulting in restructuring charges and asset impairment losses. The following table shows activity related to these exit activities since September 30, 2003 (in thousands):

| | Lease Obligations |
|---|---|
| Balance, September 30, 2003 | $ 681 |

| | |
|---|---|
| Amounts paid year-to-date during fiscal 2004 | (127) |
| Balance, June 30, 2004 | $ 554 |

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

During fiscal 2003, the Company reduced the size of certain product development organizations, resulting in severance-related restructuring charges. The following table shows activity related to these exit activities since September 30, 2003 (in thousands):

| | Termination Benefits |
|---|---|
| Balance, September 30, 2003 | $ 1,771 |
| Amounts paid year-to-date during fiscal 2004 | (1,612) |
| Adjustments to previously-recognized liabilities | (159) |
| Balance, June 30, 2004 | $ - |

4. Common Stock and Earnings Per Share

Options to purchase shares of Class A Common Stock ("Common Stock") at an exercise price of one cent per share, received by shareholders of MessagingDirect Ltd. ("MDL") as part of its acquisition by the Company during fiscal 2001, that have not yet been converted into Common Stock are included in Common Stock for presentation purposes on the June 30, 2004 and September 30, 2003 consolidated balance sheets, and are included in common shares outstanding for earnings per share ("EPS") computations for the three and nine months ended June 30, 2004 and 2003. Included in Common Stock are 3,668 and 6,248 MDL options, respectively, as of June 30, 2004 and September 30, 2003.

EPS has been computed in accordance with SFAS No. 128, "Earnings Per Share." Basic EPS is calculated by dividing net income available to common stockholders (the numerator) by the weighted average number of common shares outstanding during the period (the denominator). Diluted EPS is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of any outstanding dilutive securities (the denominator). The difference between the basic and diluted EPS denominators for the three months ended June 30, 2004, which amounted to approximately 1,075,000 shares, and for the nine months ended June 30, 2004 and 2003, which amounted to approximately 1,176,000 and 112,000 shares, respectively, were due to the dilutive effect of the Company's outstanding stock options. For the three months ended June 30, 2003, basic and diluted EPS are the same, as any outstanding dilutive securities were antidilutive due to the net loss. Antidilutive shares of 654,000 were excluded from the computations of diluted EPS for the three months ended June 30, 2004, and antidilutive shares of 754,000 and 5,065,000 were excluded from the computations of diluted EPS for the nine months ended June 30, 2004 and 2003, respectively, because the exercise prices of the corresponding stock options were greater than the average market price of the Company's common shares. If the Company had net income for the three months ended June 30, 2003, antidilutive shares from outstanding stock options of 4,916,000 would have been excluded from the computation of diluted EPS because the exercise prices of the corresponding stock options were greater than the average market price of the Company's common shares.

5. Comprehensive Income/Loss

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Net income (loss) | $ 18,662 | $ (1,853) | $ 36,679 | $ 5,212 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | (662) | (718) | (2,385) | (1,249) |
| Change in unrealized investment holding loss: | | | | |
| Unrealized holding gain (loss) arising during the period | - | (266) | 77 | (321) |
| Reclassification for (gain) loss included in net income (loss) | - | (31) | 107 | 84 |
| Comprehensive income (loss) | $ 18,000 | $ (2,868) | $ 34,478 | $ 3,726 |

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

| | Foreign Currency Translation Adjustments | Unrealized Investment Holding Loss | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|
| Balance, September 30, 2003 | $ (8,020) | $ (201) | $ (8,221) |
| Fiscal 2004 year-to-date activity | (2,385) | 77 | (2,308) |
| Reclassification adjustment for loss included in net income | - | 107 | 107 |
| Balance, June 30, 2004 | $(10,405) | $ (17) | $ (10,422) |

6. Segment Information

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

The Company's chief operating decision makers, together with other senior management personnel, review financial information presented on a consolidated basis, accompanied by disaggregated information about revenues and operating income by business unit. The Company does not track assets by business unit. Most of the Company's products are sold and supported through distribution networks covering the geographic regions of the Americas, Europe/Middle East/Africa and Asia/Pacific. Each distribution network has its own sales force. The Company supplements its distribution networks with independent reseller and/or distributor arrangements. No single customer accounted for more than 10% of the Company's consolidated revenues during the three or nine months ended June 30, 2004 or 2003.

The following are revenues and operating income for these business units for the periods indicated (in thousands):

| | Three Months Ended June 30, 2004 | Three Months Ended June 30, 2003 | Nine Months Ended June 30, 2004 | Nine Months Ended June 30, 2003 |
|---|---|---|---|---|
| Revenues: | | | | |
| ACI Worldwide | $ 55,365 | $ 56,358 | $ 170,956 | $ 150,629 |
| Insession Technologies | 9,382 | 8,600 | 28,348 | 24,428 |
| IntraNet | 7,785 | 8,816 | 23,772 | 30,456 |
| | $ 72,532 | $ 73,774 | $ 223,076 | $ 205,513 |
| Operating income: | | | | |
| ACI Worldwide | $ 9,019 | $ 1,960 | $ 30,259 | $ 12,220 |
| Insession Technologies | 2,205 | 1,907 | 7,449 | 5,135 |
| IntraNet | 1,751 | 787 | 4,841 | 6,050 |
| | $ 12,975 | $ 4,654 | $ 42,549 | $ 23,405 |

7. Income Taxes

It is the Company's policy to report income tax expense for interim reporting periods using an estimated annual effective income tax rate. However, the tax effects of significant or unusual items are not considered in the estimated annual effective tax rate. The tax effect of such events is recognized in the interim period in which the event occurs.

During the third quarter of fiscal 2004, the Company completed a tax reorganization of its MessagingDirect Ltd. subsidiary and its related entities (collectively referred to as "MDL") and elected to treat certain foreign operations as branches of the U.S. parent company, which resulted in the recognition of a $12.0 million tax benefit. This tax benefit arises from the excess of tax basis over the book carrying value of these foreign assets following the tax election. The Company recorded a deferred tax asset in the same amount, which is included in the June 30, 2004 consolidated balance sheet and is expected to be recovered over the next 11 1/2 years. Offsetting this tax benefit were other tax expense adjustments totaling $1.4 million that were recorded during the third quarter of fiscal 2004, including a $1.1 million adjustment to the Company's deferred tax assets related to a change in the effective state tax rates.

The effective tax rate for the third quarter of fiscal 2004 was a benefit of approximately 32.9% as compared to expense of 141.4% for the same period of fiscal 2003. The effective tax rate for the first nine months of fiscal 2004 was approximately 19.6% as compared to 75.2% for the same period of fiscal 2003. The differences between the statutory federal income tax rate and the effective tax rates per the consolidated statements of operations are summarized as follows:

| | Three Months Ended June 30, 2004 | Three Months Ended June 30, 2003 | Nine Months Ended June 30, 2004 | Nine Months Ended June 30, 2003 |
|---|---|---|---|---|
| Federal tax rate | 35.0 % | 35.0 % | 35.0 % | 35.0 % |
| MDL restructuring | (85.8) | - | (26.4) | - |
| State tax adjustment | 7.8 | - | 2.4 | - |
| Impairment of goodwill | - | 95.4 | - | 20.3 |
| Foreign taxes deducted on U.S. return, net of federal benefit | - | 9.1 | - | 9.1 |
| Increase in valuation allowance | 3.4 | 11.5 | 3.4 | 11.5 |
| Other | 6.7 | (9.6) | 5.2 | (0.7) |
| Effective income tax expense (benefit) rate | (32.9)% | 141.4 % | 19.6 % | 75.2 % |

## 8. Contingencies

### Legal Proceedings

From time to time, the Company is involved in litigation relating to claims arising out of its operations. Other than as described below, the Company is not currently a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on the Company's financial condition or results of operations.

Class Action Litigation. In November 2002, two class action complaints were filed in the U.S. District Court for the District of Nebraska (the "Court") against the Company and certain individuals alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Pursuant to a Court order, the two complaints were consolidated as Desert Orchid Partners v. Transaction Systems Architects, Inc., et al., with Genesee County Employees' Retirement System designated as the Lead Plaintiff. The First Amended Consolidated Class Action Complaint, filed on June 30, 2003 (the "Consolidated Complaint"), alleges that during the purported class period, the Company and the named defendants misrepresented the Company's historical financial condition, results of operations and its future prospects, and failed to disclose facts that could have indicated an impending decline in the Company's revenues. The Consolidated Complaint seeks unspecified damages, interest, fees, costs and rescission. The class period alleged in the Consolidated Complaint is January 21, 1999 through November 18, 2002. The Company and the individual defendants filed a motion to dismiss the Consolidated Complaint. In response, on December 15, 2003, the Court dismissed, without prejudice, Gregory Derkacht, the Company's President and Chief Executive Officer, as a defendant, but denied the motion to dismiss with respect to the remaining defendants, including the Company. On February 6, 2004, the Court entered a mediation reference order requiring the parties to mediate before a private mediator. The parties held a mediation session on March 18, 2004, which did not result in a settlement of the matter. Discovery has commenced and is in the early stages.

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

On January 24, 2003, Michael Russiello filed the suit of "Michael Russiello, Derivatively on behalf of nominal defendant Transaction Systems Architects, Inc. v. Roger K. Alexander, Gregory D. Derkacht, Gregory J. Duman, Larry G. Fendley, Jim D. Kever, and Charles E. Noell, III and Transaction Systems Architects, Inc." in the State District Court in Douglas County, Nebraska (the "Russiello matter"). The suit is a stockholder derivative action involving allegations similar to those in the Naito matter. The plaintiff seeks to recover an unspecified amount of money damages allegedly sustained by the Company as a result of the individual defendants' alleged breaches of fiduciary duties, as well as the plaintiff's costs and disbursements related to the suit.

The Company filed a motion to dismiss in the Naito matter on February 14, 2003 and a motion to dismiss in the Russiello matter on February 21, 2003. A hearing was scheduled on those motions for March 14, 2003. Just prior to that date, plaintiffs' counsel requested that the derivative lawsuits be stayed pending a determination of an anticipated motion to dismiss to be filed in the class action lawsuits. The Company, by and through its counsel, agreed to that stay. As a result, no other defendants have been served and no discovery has been commenced. The Company has not determined what effect the Court's ruling in the class action litigation will have on the Naito or Russiello matters.

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

### Forward-Looking Statements

This report contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Generally, forward-looking statements do not relate strictly to historical or current facts, and include words or phrases such as "management anticipates," "the Company believes," "the Company anticipates," "the Company expects," "the Company plans," "the Company will," "the Company is well positioned" and words and phrases of similar impact, and include, but are not limited to, statements regarding future operations, business strategy and business environment. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any or all of the forward-looking statements in this document may turn out to be wrong. They may be based on inaccurate assumptions or may not account for known or unknown risks and uncertainties. Consequently, no forward-looking statement is guaranteed, and the Company's actual future results may vary materially from the results expressed or implied in the Company's forward-looking statements. The cautionary statements in this report expressly qualify all of the Company's forward-looking statements. In addition, the Company is not obligated, and does not intend, to update any of its forward-looking statements at any time unless an update is required by applicable securities laws. Factors that could cause actual results to differ from those expressed or implied in the forward-looking statements include, but are not limited to, those discussed below in the section entitled "Factors That May Affect the Company's Future Results or the Market Price of the Company's Common Stock."

### Overview

The Company develops, markets, installs and supports a broad line of software products and services primarily focused on facilitating electronic payments and electronic commerce. In addition to its own products, the Company distributes, or acts as a sales agent for, software developed by third parties. These products and services are used principally by financial institutions, retailers and electronic-payment processors, both in domestic and international markets. Accordingly, the Company's business and operating results are influenced by trends such as information technology spending levels and the growth rate of the electronic payments industry. Most of the Company's products are sold and supported through distribution networks covering three geographic regions - the Americas, Europe/Middle East/Africa ("EMEA") and Asia/Pacific. Each distribution network has its own sales force and supplements this with independent reseller and/or distributor networks.

Merger and acquisition ("M&A") activity in the financial services industry has increased over past years and is expected to remain at higher than usual levels for some time. It is difficult to determine whether increased levels of M&A activity will have an overall positive or negative effect on the Company's future operating results. There are potential negative effects of increased M&A activity. For example, if non-customers acquire customers of the Company and in turn decide to forego future use of the Company's products, the Company's revenue would decline. Conversely, the Company could benefit if the acquisition of non-customers by customers leads to additional sales, software upgrades and/or capacity increases. The expected continuing consolidation of financial institutions may result in a fewer number of potential customers for the Company's products and services. At this time, however, the Company cannot determine the net effect of M&A activity on its future operating results.

Several factors related to the Company's business may have a significant impact on its operating results from quarter to quarter. For example, the accounting rules governing the timing of revenue recognition in the software industry are complex, and it can be difficult to estimate when the Company will recognize revenue generated by a given transaction. Factors such as the maturity of the product sold, the creditworthiness of the customer, and timing of delivery or acceptance of the Company's products can cause sales generated in one period to be deferred and recognized as revenue in later periods. In addition, while the Company's revenue contracts are generally denominated in U.S. dollars, a substantial portion of its sales are made, and some of its expenses are incurred, in the local currency of countries other than the U.S. Fluctuations in currency exchange rates in a given period may result in the Company's recognition of non-recurring gain or loss for that period. The Company is engaged in an ongoing evaluation of its tax position and implementation of strategies designed to reduce its effective tax rate. The Company's degree of success in this regard, and the acceptance by taxing authorities of the Company's tax positions, could cause its effective tax rate, and its results of operations, to fluctuate from period to period.

## Business Units

The Company's products and services are currently organized within three operating segments, referred to as business units - ACI Worldwide, Insession Technologies and IntraNet. The Company's chief operating decision makers review financial information presented on a consolidated basis, accompanied by disaggregated information about revenues and operating income by business unit. The following are revenues and operating income for these business units for the periods indicated (in thousands):

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Revenues: | | | | |
| ACI Worldwide | $ 55,365 | $ 56,358 | $ 170,956 | $ 150,629 |
| Insession Technologies | 9,382 | 8,600 | 28,348 | 24,428 |
| IntraNet | 7,785 | 8,816 | 23,772 | 30,456 |
| | $ 72,532 | $ 73,774 | $ 223,076 | $ 205,513 |
| Operating income: | | | | |
| ACI Worldwide | $ 9,019 | $ 1,960 | $ 30,259 | $ 12,220 |
| Insession Technologies | 2,205 | 1,907 | 7,449 | 5,135 |
| IntraNet | 1,751 | 787 | 4,841 | 6,050 |
| | $ 12,975 | $ 4,654 | $ 42,549 | $ 23,405 |

## Backlog

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

The following table sets forth the Company's recurring and non-recurring backlog, by business unit, as of June 30, 2004 (in thousands):

| | Recurring | Non-Recurring | Total |
|---|---|---|---|
| ACI Worldwide | $ 138,004 | $ 46,608 | $ 184,612 |
| Insession Technologies | 21,553 | 6,780 | 28,333 |
| IntraNet, Inc | 14,016 | 5,848 | 19,864 |
| | $ 173,573 | $ 59,236 | $ 232,809 |

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

## Critical Accounting Policies and Estimates

This disclosure is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that the Company make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company bases its

estimates on historical experience and other assumptions that it believes to be proper and reasonable under the circumstances. The Company continually evaluates the appropriateness of its estimates and assumptions, including those related to revenue recognition, provision for doubtful accounts, fair value of goodwill and software, useful lives of intangible and fixed assets, and income taxes, among others. Actual results could differ from those estimates.

The following key accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

Revenue Recognition

For software license arrangements for the Company's more-established ("mature") products for which other products or services rendered are not considered essential to the functionality of the software, the Company recognizes software license fee revenue upon delivery, provided (1) there is persuasive evidence of an arrangement, (2) collection of the fee is considered probable, and (3) the fee is fixed or determinable. In most arrangements, because vendor-specific objective evidence of fair value does not exist for the license element, the Company uses the residual method to determine the amount of revenue to be allocated to the license element. Under the residual method, the fair value of all undelivered elements, such as postcontract customer support or other products or services, is deferred and subsequently recognized as the products are delivered or the services are performed, with the residual difference between the total arrangement fee and revenues allocated to undelivered elements being allocated to the delivered element. For software license arrangements in which the Company has concluded that collection of the fees is not probable, revenue is recognized as cash is collected, provided all other conditions for revenue recognition have been met. In making the determination of collectibility, the Company considers the creditworthiness of the customer, economic conditions in the customer's industry and geographic location, and general economic conditions.

In recent years, the Company's sales focus has shifted from its mature products to its newer BASE24-es product, its Payments Management products and other less-established (collectively referred to as "newer") products. As a result of this shift to newer products, absent other factors, the Company initially experiences an increase in deferred revenues and a corresponding decrease in revenues due to differences in the timing of revenue recognition for the respective products. Revenues from newer products are typically recognized upon acceptance or first production use by the customer due to uncertainties surrounding customer acceptance of the product, whereas revenues from mature products, such as BASE24, are generally recognized upon delivery of the product. For those arrangements in which services revenue is being deferred and the Company determines that the costs of installation services are recoverable, such costs are capitalized and subsequently expensed proportionately with the services revenue as it is recognized. Newer products are continually evaluated by Company management and product development personnel to determine when any such product meets the specific revenue recognition criteria that would support its classification as a mature product. Evaluation criteria used in making this determination include successful demonstration of product features and functionality; standardization of sale, installation, and support functions; and customer acceptance at multiple production site installations, among others. A change in product classification (from newer to mature) would allow the Company to recognize revenues from sales of the product upon delivery of the product, resulting in earlier recognition of revenues from sales of that product, provided all other revenue recognition criteria have been met.

When a software license arrangement includes services to provide significant production, modification, or customization of software, those services are not considered to be separable from the software. Accounting for such services delivered over time (generally in excess of twelve months) is referred to as contract accounting. Under contract accounting, the Company generally uses the percentage-of-completion method. Under the percentage-of-completion method, the Company records revenue for the software license fee and services over the development and implementation period, with the percentage of completion generally measured by the percentage of labor hours incurred to-date to estimated total labor hours for each contract. Estimated total labor hours for each contract are based on the project scope, complexity, skill level requirements, and similarities with other projects of similar size and scope. For those contracts subject to contract accounting, estimates of total revenue under the contract, which are used in current percentage-complete computations, exclude amounts due under extended payment terms.

Provision for Doubtful Accounts

The Company maintains a general allowance for doubtful accounts based on its historical experience, along with additional customer-specific allowances. The Company regularly monitors credit risk exposures in its accounts

receivable. In estimating the necessary level of its allowance for doubtful accounts, management considers the aging of its accounts receivable, the creditworthiness of the Company's customers, economic conditions within the customer's industry, and general economic conditions, among other factors. Should any of these factors change, the estimates made by management will also change, which in turn would impact the level of the Company's future provision for doubtful accounts. Specifically, if the financial condition of one or more of the Company's customers were to deteriorate, affecting their ability to make payments, additional customer-specific provisions for doubtful accounts may be required. Also, should deterioration occur in general economic conditions, or within a particular industry or region in which the Company has a number of customers, additional provisions for doubtful accounts may be recorded to reserve for potential future losses. Any additional such provisions would reduce operating income in the periods in which they were recorded.

Impairment of Goodwill

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

Capitalized Software

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

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

Accounting for Income Taxes

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

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

assets would be charged to income in the period any such determination was made. Likewise, in the event the Company was able to realize its deferred tax assets in the future in excess of the net recorded amount, an adjustment to deferred tax assets would increase income in the period any such determination was made.

Results of Operations

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

| | Three Months Ended June 30, | | | | Nine Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | | 2003 | | 2004 | | 2003 | |
| | Amount | % of Revenue | Amount | % of Revenue | Amount | % of Revenue | Amount | % of Revenue |
| Revenues: | | | | | | | | |
| Initial license fees (ILFs) | $ 17,372 | 24.0 % | $ 18,902 | 25.6 % | $ 57,761 | 25.9 % | $ 46,383 | 22.6 % |
| Monthly license fees (MLFs) | 20,177 | 27.8 | 21,815 | 29.6 | 63,401 | 28.4 | 63,831 | 31.0 |
| Software license fees | 37,549 | 51.8 | 40,717 | 55.2 | 121,162 | 54.3 | 110,214 | 53.6 |
| Maintenance fees | 23,087 | 31.8 | 20,675 | 28.0 | 66,770 | 29.9 | 58,740 | 28.6 |
| Services | 11,896 | 16.4 | 12,382 | 16.8 | 35,144 | 15.8 | 36,559 | 17.8 |
| Total revenues | 72,532 | 100.0 | 73,774 | 100.0 | 223,076 | 100.0 | 205,513 | 100.0 |
| Expenses: | | | | | | | | |
| Cost of software license fees | 6,280 | 8.6 | 6,339 | 8.6 | 19,108 | 8.6 | 18,567 | 9.0 |
| Cost of maintenance and services | 13,390 | 18.5 | 15,082 | 20.4 | 43,108 | 19.3 | 45,583 | 22.2 |
| Research and development | 9,303 | 12.8 | 9,478 | 12.8 | 28,308 | 12.7 | 25,785 | 12.6 |
| Selling and marketing | 16,030 | 22.1 | 13,686 | 18.6 | 45,947 | 20.6 | 40,951 | 19.9 |
| General and administrative | 14,554 | 20.1 | 15,245 | 20.7 | 44,056 | 19.7 | 41,932 | 20.4 |
| Impairment of goodwill | - | - | 9,290 | 12.6 | - | - | 9,290 | 4.5 |
| Total expenses | 59,557 | 82.1 | 69,120 | 93.7 | 180,527 | 80.9 | 182,108 | 88.6 |
| Operating income | 12,975 | 17.9 | 4,654 | 6.3 | 42,549 | 19.1 | 23,405 | 11.4 |
| Other income (expense): | | | | | | | | |
| Interest income | 354 | 0.5 | 281 | 0.4 | 1,226 | 0.5 | 876 | 0.4 |
| Interest expense | (284) | (0.4) | (682) | (0.9) | (1,196) | (0.5) | (2,425) | (1.2) |
| Other, net | 995 | 1.4 | 225 | 0.3 | 3,069 | 1.4 | (835) | (0.4) |
| Total other income (expense) | 1,065 | 1.5 | (176) | (0.2) | 3,099 | 1.4 | (2,384) | (1.2) |
| Income before income taxes | 14,040 | 19.4 | 4,478 | 6.1 | 45,648 | 20.5 | 21,021 | 10.2 |
| Income tax (provision) benefit | 4,622 | 6.3 | (6,331) | (8.6) | (8,969) | (4.1) | (15,809) | (7.7) |
| Net income (loss) | $ 18,662 | 25.7 % | $ (1,853) | (2.5)% | $ 36,679 | 16.4 % | $ 5,212 | 2.5 % |

Revenues. Total revenues for the third quarter of fiscal 2004 decreased $1.2 million, or 1.7%, as compared to the same period of fiscal 2003. Total revenues for the first nine months of fiscal 2004 increased $17.6 million, or 8.5%, as compared to the same period of fiscal 2003. The three-month decrease is the net result of a $3.2 million, or 7.8%, decrease in software license fee revenues, a $2.4 million, or 11.7%, increase in maintenance fee revenues, and a $0.5 million, or 3.9%, decrease in services revenues. The nine-month increase is the net result of a $10.9 million, or 9.9%, increase in software license fee revenues and a $8.0 million, or 13.7%, increase in maintenance fee revenues, and a $1.4 million, or 3.9%, decrease in services revenues.

For the third quarter of fiscal 2004, as compared to the same period of fiscal 2003, ACI Worldwide's software license fee revenues decreased by $3.1 million, primarily due to the number and size of transaction volume upgrades, primarily in the EMEA region, during the third quarter of fiscal 2003 as compared to the same period of fiscal 2004. For the first nine months of fiscal 2004, as compared to the same period of fiscal 2003, ACI Worldwide's software license fee revenues increased by $13.3 million, a substantial portion of which was due to a significant license renewal in the EMEA region during the first

quarter of fiscal 2004, a large capacity upgrade and term extension by a customer in the Americas during the second quarter of fiscal 2004, increased revenues from the Company's BASE24 and fraud detection products, and a number of other large system and capacity increases

during the first six months of fiscal 2004. Insession Technologies' software license fee revenues were $0.7 million higher for the third quarter of fiscal 2004 than for the same period of fiscal 2003 primarily due to increased activity related to its data connectivity and web-based communication products. Insession Technologies' software license fee revenues were $2.7 million higher for the first nine months of fiscal 2004 than for same period of fiscal 2003 due to increased activity related to its data connectivity and web-based communication products, as well as its data center management enhancement products. For the third quarter of fiscal 2004, as compared to the same period of fiscal 2003, IntraNet's software license fee revenues decreased by $0.7 million. For the first nine months of fiscal 2004, as compared to the same period of fiscal 2003, IntraNet's software license fee revenues decreased by $5.1 million, primarily due to the completion of the final phase of an automated clearing house ("ACH") processing project with a large European bank during the second quarter of fiscal 2003, which allowed the Company to recognize approximately $3.6 million in revenues. Also, as IntraNet's customers complete their migration from the Digital VAX-based Money Transfer System ("MTS") product to the RS6000-based MTS product, corresponding revenues associated with the migration process have declined, which explains the remaining reduction in IntraNet's software license fee revenues for the first nine months of fiscal 2004 as compared to the same period of fiscal 2003.

The increases in maintenance fee revenues for the third quarter and first nine months of fiscal 2004, as compared to the same periods of fiscal 2003, were primarily due to growth in the installed base of software products within the ACI Worldwide and Insession Technologies business units in the Americas and EMEA.

The decrease in services revenues for the third quarter and first nine months of fiscal 2004, as compared to the same period of fiscal 2003, resulted primarily from a decrease in IntraNet services revenues. Since the majority of IntraNet's MTS customers have successfully completed their migration from the Digital VAX-based MTS product to the RS6000-based MTS product, corresponding services revenues associated with the migration process have declined.

Expenses. Total operating expenses for the third quarter of fiscal 2004 decreased $9.6 million, or 13.8%, as compared to the same period of fiscal 2003. Total operating expenses for the first nine months of fiscal 2004 decreased $1.6 million, or 0.9%, as compared to the same period of fiscal 2003. Operating expenses for the third quarter and first nine months of fiscal 2003 included a goodwill impairment charge of $9.3 million. The effect of changes in foreign currency exchange rates was to increase overall expenses by approximately $2.2 million and $7.2 million for the third quarter and first nine months of fiscal 2004, respectively, as compared to the same periods of fiscal 2003.

Cost of software license fees for the third quarter of fiscal 2004 decreased $0.1 million, or 0.9%, as compared to the same period of fiscal 2003. Cost of software license fees for the first nine months of fiscal 2004 increased $0.5 million, or 2.9%, as compared to the same period of fiscal 2003. The comparative nine-month increase in cost of software license fees was due primarily to increased commissions paid to distributors of the Company's products along with higher product royalty fees paid on sales of third-party products during the first quarter of fiscal 2004 as compared to the first quarter of fiscal 2003, offset in part by a reduction in salaries resulting from the shift of certain personnel to research and development ("R&D") activities in the latter part of fiscal 2003.

Cost of maintenance and services for the third quarter of fiscal 2004 decreased $1.7 million, or 11.2%, as compared to the same period of fiscal 2003. Cost of maintenance and services for the first nine months of fiscal 2004 decreased $2.5 million, or 5.4%, as compared to the same period of fiscal 2003. These comparative cost decreases were primarily due to a reduction in compensation-related expenses resulting from a shift of certain personnel to installation services associated with increasing sales of less-established products such as the Company's newer BASE24-es product, in which revenue is being deferred until acceptance or first production use and the associated costs are capitalized and subsequently expensed when the related services revenue recognition occurs, and the shift of certain personnel to R&D activities in the latter part of fiscal 2003, offset in part by an increase in costs to perform maintenance and services activities corresponding to an increase in the related combined revenues.

R&D costs for the third quarter of fiscal 2004 decreased $0.2 million, or 1.8%, as compared to the same period of fiscal 2003. Enhancements to the RS6000-based MTS product, specifically related to European functionality, resulted in higher R&D costs within the IntraNet business unit during the third quarter of fiscal 2003 as compared to the same period of fiscal 2004. Offsetting this were higher R&D costs in fiscal 2004 due to the shift of certain personnel from other areas of the Company to R&D activities in the latter part of fiscal 2003. R&D costs for the first nine months of fiscal 2004 increased $2.5 million,

or 9.8%, as compared to the same period of fiscal 2003. The comparative nine-

month increase in R&D costs was primarily due to the shift of certain personnel from other areas of the Company to R&D activities in the latter part of fiscal 2003.

Selling and marketing costs for the third quarter of fiscal 2004 increased $2.3 million, or 17.1%, as compared to the same period of fiscal 2003. Selling and marketing costs for the first nine months of fiscal 2004 increased $5.0 million, or 12.2%, as compared to the same period of fiscal 2003. The large increase in selling and marketing costs reflects increased sales commissions caused primarily by higher sales volumes in the ACI Worldwide business unit during the second and third quarters of fiscal 2004 as compared to the same periods of fiscal 2003.

General and administrative costs for the third quarter of fiscal 2004 decreased $0.7 million, or 4.5%, as compared to the same period of fiscal 2003. General and administrative costs for the first nine months of fiscal 2004 increased $2.1 million, or 5.1%, as compared to the same period of fiscal 2003. The comparative nine-month increase in general and administrative costs is primarily due to increased professional fees for legal, tax and other services, as well as increased insurance costs for director and officer liability insurance.

Other Income and Expense. Interest expense for the third quarter of fiscal 2004 decreased $0.4 million, or 58.4%, as compared to the same period of fiscal 2003. Interest expense for the first nine months of fiscal 2004 decreased $1.2 million, or 50.7%, as compared to the same period of fiscal 2003. The decrease in interest expense is attributable to the reduction in debt from financing agreements (balance at June 30, 2004 of $11.8 million as compared to $29.2 million at June 30, 2003).

Other income for the third quarter of fiscal 2004 increased $0.8 million as compared to the same period of fiscal 2003 due to increased foreign currency gains realized. Other income for the first nine months of fiscal 2004 was $3.1 million as compared to other expense for the same period of fiscal 2003 of $0.8 million. This nine-month variance is primarily due to foreign currency gains and losses, with the Company realizing $3.3 million in gains during the first nine months of fiscal 2004 as compared to $0.5 million in losses during the same period of fiscal 2003.

Income Taxes. It is the Company's policy to report income tax expense for interim reporting periods using an estimated annual effective income tax rate. However, the tax effects of significant or unusual items are not considered in the estimated annual effective tax rate. The tax effect of such events is recognized in the interim period in which the event occurs.

In fiscal 2003, the Company undertook an extensive review of its overall tax position. Certain tax-saving strategies implemented during the latter part of fiscal 2003 have resulted in lower effective tax rates for the third quarter and first nine months of fiscal 2004 as compared to the same periods of fiscal 2003. Additionally, during the third quarter of fiscal 2004, the Company completed a tax reorganization of its MessagingDirect Ltd. subsidiary and its related entities (collectively referred to as "MDL") and elected to treat certain foreign operations as branches of the U.S. parent company, which resulted in the recognition of a $12.0 million tax benefit. This tax benefit arises from the excess of tax basis over the book carrying value of these foreign assets following the tax election. The Company recorded a deferred tax asset in the same amount, which is included in the June 30, 2004 consolidated balance sheet. The Company estimates the annual cash savings resulting from the MDL restructuring to be approximately $1.0 million over the next 11 1/2 years. Since the entire $12.0 million tax benefit was recognized during the third quarter of fiscal 2004, the tax savings will not further affect the Company's results of operations over future periods. Offsetting this tax benefit were other tax expense adjustments totaling $1.4 million that were recorded during the third quarter of fiscal 2004, including a $1.1 million adjustment to the Company's deferred tax assets related to a change in the effective state tax rates. On an ongoing basis, the state tax adjustment should result in a reduction of state tax expenses.

The effective tax rate for the third quarter of fiscal 2004 was a benefit of approximately 32.9% as compared to expense of 141.4% for the same period of fiscal 2003. The effective tax rate for the first nine months of fiscal 2004 was approximately 19.6% as compared to 75.2% for the same period of fiscal 2003. The differences between the statutory federal income tax rate and the effective tax rates per the consolidated statements of operations are summarized as follows:

|  | Three Months Ended June 30, |  | Nine Months Ended June 30, |  |
|---|---|---|---|---|
|  | 2004 | 2003 | 2004 | 2003 |
| Federal tax rate | 35.0 % | 35.0 % | 35.0 % | 35.0 % |
| MDL restructuring | (85.8) | - | (26.4) | - |
| State tax adjustment | 7.8 | - | 2.4 | - |
| Impairment of goodwill | - | 95.4 | - | 20.3 |
| Foreign taxes deducted on U.S. return, net of federal benefit | - | 9.1 | - | 9.1 |
| Increase in valuation allowance | 3.4 | 11.5 | 3.4 | 11.5 |
| Other | 6.7 | (9.6) | 5.2 | (0.7) |
| Effective income tax expense (benefit) rate | (32.9)% | 141.4 % | 19.6 % | 75.2 % |

Improvements in the effective tax rates for the third quarter and first nine months of fiscal 2004, as compared to the same periods during fiscal 2003, after excluding the impact of the $10.6 million net benefit (discussed above) during the third quarter and first nine months of fiscal 2004 and the impact of the non-deductible goodwill impairment charge during the third quarter and first nine months of fiscal 2003, resulted primarily from a reduction in state tax expense, implementation of a new transfer pricing policy and expected utilization of foreign tax credits. The Company continually reviews options that could further reduce its effective tax rate. However, there can be no assurance that the Company will be able to further reduce its effective tax rate, and even if the Company is successful in reducing the rate, there can be no assurance of the timing and amount of any such reduction.

Each quarter, the Company evaluates its historical operating results as well as its projections for the future to determine the realizability of the deferred tax assets. As of June 30, 2004, the Company had deferred tax assets of $24.3 million (net of a $52.7 million valuation allowance). The Company's valuation allowance primarily relates to foreign net operating loss carryforwards. The valuation allowance is based on the extent to which management believes these carryforwards could expire unused due to the Company's historical or projected losses in certain of its foreign subsidiaries. The Company analyzes the recoverability of its net deferred tax assets at each reporting period. Because unforeseen factors may affect future taxable income, increases or decreases to the valuation reserve may be required in future periods.

Liquidity and Capital Resources

As of June 30, 2004, the Company's principal sources of liquidity consisted of $158.9 million in cash and cash equivalents.

The Company's net cash flows provided by operating activities for the first nine months of fiscal 2004 amounted to $44.7 million as compared to $26.1 million during the same period of fiscal 2003. The increase in operating cash flows resulted primarily from increased net income, including adjustments for non-cash items. The largest changes in operating assets and liabilities related to billed and accrued receivables, deferred revenue, current income taxes and deferred income taxes.

The Company's net cash flows used in investing activities totaled $1.2 million for the first nine months of fiscal 2004 as compared to $1.7 million during the same period of fiscal 2003. During the first nine months of fiscal 2004, the Company purchased software, property and equipment of $2.6 million as compared to $2.3 million for the same period of fiscal 2003. During the first nine months of fiscal 2004, the Company received proceeds from sales of marketable securities of $1.4 million as compared to $0.6 million for the same period of fiscal 2003.

The Company's net cash flows used in financing activities totaled $0.6 million for the first nine months of fiscal 2004 as compared to $14.2 million during the same period of fiscal 2003. During the first nine months of fiscal 2004 and 2003, payments made to third-party financial institutions to repay factoring debts were $13.1 million and $14.7 million, respectively. During the first nine months of fiscal 2004, however, the Company received $12.2 million from the exercise of stock options as compared to $0.3 million for the same period of fiscal 2003.

The Company's net cash flows resulting from exchange rate fluctuations for the first nine months of fiscal 2004

amounted to $2.0 million as compared to $2.9 million during the same period of fiscal 2003.

The Company may decide to use cash in the future to acquire new products and services or enhance existing products and services through acquisitions of other companies, product lines, technologies and personnel, or through investments in other companies. The Company believes that its existing sources of liquidity, including cash on hand and cash provided by operating activities, will satisfy the Company's projected short-term and long-term liquidity requirements.

Factors That May Affect the Company's Future Results or the Market Price of the Company's Common Stock

The Company operates in a rapidly changing technological and economic environment that presents numerous risks. Many of these risks are beyond the Company's control and are driven by factors that often cannot be predicted. The following discussion highlights some of these risks.

- The Company's backlog estimate is based on management's assessment of the customer contracts that exist as of the date the estimate is made. A number of factors could result in actual revenues being less than the amounts reflected in backlog. The Company's customers may attempt to renegotiate or terminate their contracts for a number of reasons, including mergers, changes in their financial condition, or general changes in economic conditions in their industries or geographic locations, or the Company may experience delays in the development or delivery of products or services specified in customer contracts. Accordingly, there can be no assurance that contracts included in recurring or non-recurring backlog will actually generate the specified revenues or that the actual revenues will be generated within a twelve-month period.

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

  The Company has insurance that provides an aggregate coverage of $20.0 million for the period during which the claims were filed, but cannot evaluate at this time whether such coverage will be available or adequate to cover losses, if any, arising out of these lawsuits. If these policies do not adequately cover expenses and liabilities relating to these lawsuits, the Company's financial condition, results of operations and cash flows could be materially harmed. The Company's certificate of incorporation provides that it will indemnify and advance expenses to its directors and officers to the maximum extent permitted by Delaware law. The indemnification covers any expenses and liabilities reasonably incurred by a person, by reason of the fact that such person is or was or has agreed to be a director or officer, in connection with the investigation, defense and settlement of any threatened, pending or completed action, suit, proceeding or claim. The Company's certificate of incorporation authorizes the use of indemnification agreements and the Company enters into such agreements with its directors and certain officers from time to time. These indemnification agreements typically provide for a broader scope of the Company's obligation to indemnify the directors and officers than set forth in the certificate of incorporation. The Company's contractual indemnification obligations under these agreements are in addition to the respective directors' and officers' rights under the certificate of incorporation or under Delaware law. However, the indemnification agreements typically eliminate the Company's obligation to pay a director or officer for any claims to the extent that he or she has previously received payment for such claims under any insurance policy, the certificate of incorporation or otherwise.

  Additional related suits against the Company may be commenced in the future. The Company will fully analyze such suits and intends to vigorously defend against them. There is a risk that the above-described litigation, as well as any additional suits, could result in substantial costs and divert management attention and resources, which could adversely affect the Company's business, financial condition and results of operations.

o New accounting standards, revised interpretations or guidance regarding existing standards, or changes in the Company's business practices could result in future changes to the Company's revenue recognition or

other accounting policies. These changes could have a material adverse effect on the Company's business, financial condition and results of operations.

- The Company is subject to income taxes, as well as non-income based taxes, in the United States and in various foreign jurisdictions. Significant judgment is required in determining the Company's worldwide provision for income taxes and other tax liabilities. In addition, the Company has implemented tax-saving strategies, including those that resulted in a net benefit this quarter. The Company believes that implemented tax-saving strategies comply with applicable tax law. However, taxing authorities could disagree with the Company's positions. If the taxing authorities are successful in challenging any of the Company's tax positions, the Company's financial condition and results of operations could be adversely affected.

  The Company's tax positions in its amended income tax returns filed for its 1999 through 2002 tax years are the subject of an ongoing examination by the Internal Revenue Service ("IRS"). The Company believes that its tax positions comply with applicable tax law. This examination may result in the IRS issuing proposed assessments that could adversely affect the Company's financial condition and results of operations.

  Two of the Company's foreign subsidiaries are the subject of a tax examination by the local taxing authority. Other foreign subsidiaries could face challenges from various foreign tax authorities. It is not certain that the local authorities will accept the Company's tax positions. The Company believes its tax positions comply with applicable tax law and it intends to defend its positions. However, differing positions on certain issues could be upheld by foreign tax authorities, which could adversely affect the Company's financial condition and results of operations.

- No assurance can be given that operating results will not vary. Fluctuations in quarterly operating results may result in volatility in the Company's stock price. The Company's stock price may also be volatile, in part, due to external factors such as announcements by third parties or competitors, inherent volatility in the technology sector and changing market conditions in the software industry. The Company's stock price may also become volatile, in part, due to developments in the various lawsuits filed against the Company relating to its restatement of prior consolidated financial results.

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

- The Company's BASE24-es product is a significant new product for the Company. If the Company is unable to generate adequate sales of BASE24-es, if market acceptance of BASE24-es is delayed, or if the Company is unable to successfully deploy BASE24-es in production environments, the Company's business, financial condition and results of operations could be materially adversely affected.

- Historically, a majority of the Company's total revenues resulted from licensing its BASE24 product line and providing related services and maintenance. Any reduction in demand for, or increase in competition with respect to, the BASE24 product line could have a material adverse effect on the Company's financial condition and results of operations.

- The Company has historically derived a substantial portion of its revenues from licensing of software products that operate on HP NonStop servers. Prior to its merger with HP, Compaq Computer Corporation announced a plan to consolidate its high-end performance enterprise servers on the Intel Corp. Itanium microprocessor, which is expected to be completed by 2005. Any reduction in demand for the HP NonStop servers or in HP's ability to deliver products on a timely basis could have a material adverse effect on the Company's financial condition and results of operations. The Company has not determined whether consolidation of the high-end servers will materially affect the Company's business, financial condition or results of operations.

- The Company's business is concentrated in the banking industry, making

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

o The Company may acquire new products and services or enhance existing products and services through

acquisitions of other companies, product lines, technologies and personnel, or through investments in other companies. Any acquisition or investment may be subject to a number of risks, including diversion of management time and resources, disruption of the Company's ongoing business, difficulties in integrating acquisitions, dilution to existing stockholders if the Company's common stock is issued in consideration for an acquisition or investment, the incurring or assuming of indebtedness or other liabilities in connection with an acquisition, and lack of familiarity with new markets, product lines and competition. The failure to manage acquisitions or investments, or successfully integrate acquisitions, could have a material adverse effect on the Company's business, financial condition and results of operations.

- To protect its proprietary rights, the Company relies on a combination of contractual provisions, including customer licenses that restrict use of the Company's products, confidentiality agreements and procedures, and trade secret and copyright laws. Despite such efforts, the Company may not be able to adequately protect its proprietary rights, or the Company's competitors may independently develop similar technology, duplicate products or design around any rights the Company believes to be proprietary. This may be particularly true in countries other than the United States because some foreign laws do not protect proprietary rights to the same extent as certain laws of the United States. Any failure or inability of the Company to protect its proprietary rights could materially adversely affect the Company.

- There has been a substantial amount of litigation in the software industry regarding intellectual property rights. The Company anticipates that software product developers and providers of electronic commerce solutions could increasingly be subject to infringement claims, and third parties may claim that the Company's present and future products infringe their intellectual property rights. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays or require the Company to enter into royalty or licensing agreements. A successful claim by a third party of intellectual property infringement by the Company could compel the Company to enter into costly royalty or license agreements, pay significant damages or even stop selling certain products. Royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all, which could adversely affect the Company's business.

- The Company's software products are complex. They may contain undetected errors or failures when first introduced or as new versions are released. This may result in loss of, or delay in, market acceptance of the Company's products and a corresponding loss of sales or revenues. Customers depend upon the Company's products for mission-critical applications. Software product errors or failures could subject the Company to product liability, as well as performance and warranty claims, which could materially adversely affect the Company's business, financial condition and results of operations.

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

There have been no material changes to the Company's market risk for the nine months ended June 30, 2004. The Company conducts business in all parts of the world and is thereby exposed to market risks related to fluctuations in foreign currency exchange rates. As a general rule, the Company's revenue contracts are denominated in U.S. dollars. Thus, any decline in the value of local foreign currencies against the U.S. dollar results in the Company's products and services being more expensive to a potential foreign customer, and in those instances where the Company's goods and services have already been sold, may result in the receivables being more difficult to collect. The Company at times enters into revenue contracts that are denominated in the country's local currency, principally in the United Kingdom, Australia and Canada. This practice serves as a natural hedge to finance the local currency expenses incurred in those locations. The Company has not entered into any foreign currency hedging transactions. The Company does not purchase or hold any derivative financial instruments for the purpose of speculation or arbitrage.

## Item 4. CONTROLS AND PROCEDURES

As noted in the Company's Form 10-K for the fiscal year ended September 30, 2003, management and KPMG have advised the Company's Audit Committee that during the course of the fiscal 2003 audit of the Company's financial statements, they noted deficiencies in internal controls related to timely reconciliation of intercompany accounts and revenue recognition procedures pertaining to

documentation of software delivery, as well as evaluation and documentation of customer creditworthiness. Deficiencies were also noted related to revenue recognition on a percentage-of-completion basis at one of the Company's subsidiaries. Improvements in the Company's internal

controls over financial reporting related to the noted deficiencies have been implemented during the first nine months of fiscal 2004, and corrective actions have been initiated to address any deficiencies outstanding at June 30, 2004.

KPMG has advised the Audit Committee that these internal control deficiencies constitute reportable conditions and, collectively, a material weakness as defined in Statement of Auditing Standards No. 60. Certain of these internal control weaknesses may also indicate deficiencies in the Company's disclosure controls. The Company has established substantial additional procedures designed to ensure that these internal control deficiencies do not lead to material misstatements in its consolidated financial statements. Based upon an evaluation as of June 30, 2004 of the Company's disclosure controls and procedures, including these additional procedures, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of such date to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, completely and accurately, within the time periods specified in Securities and Exchange Commission rules and forms.

In connection with the requirements of Section 404 of the Sarbanes-Oxley Act, the Company has commenced documentation and evaluation of its internal controls over financial reporting and has retained consultants to assist in this process. The Company will continue to evaluate the effectiveness of its disclosure controls and internal controls and procedures on an ongoing basis, taking corrective action as appropriate.

## PART II - OTHER INFORMATION

### Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

| | |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to SEC Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

(b) Reports on Form 8-K:

The Company had previously announced that on August 8, 2003, it was informed that the Securities and Exchange Commission's Enforcement Division had issued a formal order of private investigation in connection with the Company's restatement of its prior consolidated financial statements. On April 14, 2004, the Company filed a current report on Form 8-K indicating that a press release was issued announcing its receipt of a letter from the Securities and Exchange Commission indicating that it had terminated its investigation and that no enforcement action was recommended. A copy of the press release issued on April 14, 2004 was attached thereto.

On April 28, 2004, the Company filed a current report on Form 8-K announcing that on April 27, 2004, the Company issued a press release announcing its financial results for the quarterly period ending March 31, 2004. A copy of the press release was attached thereto.

On May 3, 2004, the Company filed a current report on Form 8-K announcing that on April 27, 2004, the Company held a teleconference and web cast discussing its financial performance for the quarterly period ending March 31, 2004. A transcript of the teleconference/web cast was attached thereto.

SIGNATURE

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

TRANSACTION SYSTEMS ARCHITECTS, INC.
(Registrant)

Date: August 10, 2004

By: /s/ DAVID R. BANKHEAD

David R. Bankhead
Senior Vice President,
Chief Financial Officer and Treasurer
(principal financial officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Gregory D. Derkacht, certify that:

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

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

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

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

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

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

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

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

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

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

Date: August 10, 2004

By: /s/ GREGORY D. DERKACHT
-----------------------------------
Gregory D. Derkacht
President, Chief Executive Officer
and Director

Exhibit 31.2

# CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David R. Bankhead, certify that:

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

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

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

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

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

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

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

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

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

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

Date: August 10, 2004

By: /s/ DAVID R. BANKHEAD
-------------------------------------
David R. Bankhead
Senior Vice President,
Chief Financial Officer and Treasurer

Exhibit 32.1

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

In connection with the Quarterly Report of Transaction Systems Architects, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory D. Derkacht, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: August 10, 2004

By: /s/ GREGORY D. DERKACHT
---------------------------------
Gregory D. Derkacht
President, Chief Executive Officer and Director

Exhibit 32.2

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

In connection with the Quarterly Report of Transaction Systems Architects, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David R. Bankhead, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: August 10, 2004

By: /s/ DAVID R. BANKHEAD

-------------------------------------

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