

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported) August 21, 1996

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

| | | |
|---|-----------------------------|--------------------------------------|
| DELAWARE | 0-25346 | 47-0772104 |
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

330 South 108th Avenue, Omaha, Nebraska 68154
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (402) 390-7600

TRANSACTION SYSTEMS ARCHITECTS, INC.
FORM 8-K

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On July 15, 1996, Transaction Systems Architects, Inc. ("TSA" or the "Company") entered into a Stock Exchange Agreement (the "Stock Exchange Agreement") with Grapevine Systems, Inc., a Nebraska corporation ("Grapevine") and the principal shareholders of Grapevine. Pursuant to a statutory share exchange under the Stock Exchange Agreement, the Company is to acquire all of the issued and outstanding shares of Grapevine common stock, in exchange for shares of TSA Class A Common Stock.

The total number of shares of TSA Class A Common Stock to be issued to shareholders of Grapevine in connection with the share exchange is 370,000 shares, subject to adjustment in the event that the average per share closing price of the Company's Class A Common Stock on the Nasdaq National Market for the five business days after the Registration Statement covering the TSA Class A Common Stock to be issued in the share exchange is declared effective by the Securities and Exchange Commission ("Average Closing Price") is less than \$30.00 per share or more than \$40.00 per share. The Registration Statement was declared effective by the Securities and Exchange Commission on August 16, 1996. If the Average Closing Price is less than \$30.00 per share, then the total number of shares of TSA Class A Common Stock to be issued in the share exchange will be determined by dividing \$11,100,000 (which is 370,000 x \$30.00) by the Average Closing Price. If the Average Closing Price is greater than \$40.00 per share, then the total number of shares of TSA Class A Common Stock to be issued

in the share exchange will be determined by dividing \$14,800,000 (which is 370,000 x \$40.00) by the Average Closing Price.

Consummation of the share exchange which is scheduled for September 13, 1996 is subject to certain conditions, including the approval by the holders of a two-thirds majority of the Grapevine voting stock.

Grapevine develops, markets and supports a broad line of software products and services primarily focused on high availability and on-line transaction processing systems worldwide. Solutions from Grapevine typically combine both professional services and product software components.

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ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(a) Financial statements of businesses acquired.

The following financial statements of Grapevine Systems, Inc. are filed with this report:

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| Independent Auditors' Report | 5 |
| Balance Sheets as of December 31, 1994 and 1995 and June 30, 1996 (unaudited) | 6 |
| Statements of Operations for the years ended December 31, 1993, 1994 and 1995 and the six months ended June 30, 1995 (unaudited) and 1996 (unaudited) | 7 |
| Statements of Changes in Stockholders' Equity for the year ended December 31, 1993, 1994 and 1995 and the six months ended June 30, 1996 (unaudited) | 8 |
| Statements of Cash Flows for the years ended December 31, 1993, 1994 and 1995 and the six months ended June 30, 1995 (unaudited) and 1996 (unaudited) | 9 |
| Notes to Financial Statements | 10 - 17 |

(b) Pro forma financial information.

The following unaudited pro forma consolidated financial statements are filed with this report:

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|--|----|
| Pro Forma Consolidated Balance Sheet as of June 30, 1996 | 19 |
| Pro Forma Consolidated Statement of Operations for the year ended September 30, 1993 | 20 |
| Pro Forma Consolidated Statement of Operations for the year ended September 30, 1994 | 21 |
| Pro Forma Consolidated Statement of Operations for the year ended September 30, 1995 | 22 |
| Pro Forma Consolidated Statement of Operations for the nine months ended June 30, 1996 | 23 |
| Notes to Unaudited Pro Forma Consolidated Financial Statements | 24 |

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(c) Exhibits.

2.09* Stock Exchange Agreement by and among the Company, Grapevine Systems, Inc. and certain principal shareholders of Grapevine Systems, Inc., dated as of July 15, 1996

23.05 Consent of Deloitte & Touche LLP

* Incorporated by reference to the exhibit of the same number to the Registrant's Registration Statement No. 333-09811 on Form S-4.

SIGNATURES

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 hereunto duly authorized.

TRANSACTION SYSTEMS ARCHITECTS, INC.

Dated: August 21, 1996

By: /s/ Gregory J. Duman

Gregory J. Duman
Chief Financial Officer
(Principal Financial Officer)

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INDEPENDENT AUDITORS' REPORT

To the Stockholders of
Grapevine Systems, Inc.

We have audited the accompanying balance sheets of Grapevine Systems, Inc. as of December 31, 1994 and 1995, and the related statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1994 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Omaha, Nebraska
February 9, 1996

GRAPEVINE SYSTEMS, INC.

BALANCE SHEETS

| ASSETS | DECEMBER 31, | | JUNE 30, |
|---|--------------|--------------|---------------------|
| | 1994 | 1995 | 1996 (UNAUDITED) |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | \$ 3,464 | \$ 8,660 | \$ 2,144 |
| Accounts receivable | 629,097 | 821,131 | 1,085,704 |
| Costs and estimated earnings in excess of billings on uncompleted contracts (Note B) | 16,280 | 29,550 | - |
| Income taxes receivable | 62,811 | - | - |
| Prepaid expenses | 8,391 | 33,573 | 25,055 |
| Total current assets | 720,043 | 892,914 | 1,112,903 |
| PROPERTY AND EQUIPMENT: | | | |
| Furniture and fixtures | 107,357 | 122,266 | 129,266 |
| Equipment | 472,022 | 564,143 | 732,697 |
| Leasehold improvements | 12,976 | 12,975 | 12,975 |
| Accumulated depreciation and amortization | (369,071) | (472,082) | (530,677) |
| Total property and equipment | 223,284 | 227,302 | 344,261 |
| PRODUCT DEVELOPMENT, net of accumulated amortization of \$412,651, \$696,290, and \$853,757 (unaudited), respectively | 672,777 | 774,946 | 726,902 |
| | \$ 1,616,104 | \$ 1,895,162 | \$ 2,184,066 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Bank line of credit (Note C) | \$ 295,000 | \$ 250,000 | \$ 360,000 |
| Note payable (Note D and E) | - | 100,000 | 200,000 |
| Current portion of capital lease obligations (Note F) | 11,810 | 24,453 | 55,402 |
| Accounts payable | 108,171 | 122,018 | 204,031 |
| Accrued expenses | 62,482 | 182,680 | 154,380 |
| Billings in excess of costs and estimated earnings on uncompleted contracts (Note B) | 40,180 | 40,400 | 6,250 |
| Deferred revenue | 61,645 | 126,424 | 77,429 |
| Deferred income taxes (Note G) | 132,306 | 105,733 | 211,091 |
| Total current liabilities | 711,594 | 951,708 | 1,268,583 |
| DEFERRED INCOME TAXES (Note G) | 202,755 | 235,762 | 125,345 |
| LONG-TERM DEBT: | | | |
| Capital lease obligations, less current portion (Note F) | 9,930 | 8,088 | 85,485 |
| Total long-term debt | 9,930 | 8,088 | 85,485 |
| COMMITMENTS AND CONTINGENCIES (Note H and J) | | | |
| STOCKHOLDERS' EQUITY (Note H): | | | |
| Common stock, Class A, voting, \$.004 par value, 1,937,125 shares authorized | 6,180 | 6,180 | 6,180 |
| Common stock, Class B, nonvoting, \$.004 par value, 562,875 shares authorized | 2,251 | 2,251 | 2,251 |

| | | | |
|---------------------------------------|--------------|--------------|--------------|
| Additional paid-in capital | 114,692 | 117,343 | 124,930 |
| Retained earnings | 626,432 | 635,387 | 628,345 |
| Less common stock held in treasury: | | | |
| Class A | (32,830) | (34,565) | (34,565) |
| Class B | (15,671) | (22,232) | (16,533) |
| Nonvested employee stock compensation | (9,229) | (4,760) | (5,955) |
| | ----- | ----- | ----- |
| Total stockholders' equity | 691,825 | 699,604 | 704,653 |
| | ----- | ----- | ----- |
| | \$ 1,616,104 | \$ 1,895,162 | \$ 2,184,066 |
| | ----- | ----- | ----- |
| | ----- | ----- | ----- |

See notes to financial statements.

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GRAPEVINE SYSTEMS, INC.

STATEMENTS OF OPERATIONS

| | YEAR ENDED DECEMBER 31, | | | SIX MONTHS ENDED | |
|--|-------------------------|--------------|--------------|------------------|--------------|
| | 1993 | 1994 | 1995 | 1995 | 1996 |
| | | | | (UNAUDITED) | |
| REVENUE: | | | | | |
| Professional service fees | \$ 3,053,919 | \$ 3,404,691 | \$ 4,288,498 | \$ 1,954,377 | \$ 2,525,933 |
| Product license and maintenance fees | 296,684 | 404,940 | 516,552 | 193,652 | 433,388 |
| | ----- | ----- | ----- | ----- | ----- |
| Gross revenue | 3,350,603 | 3,809,631 | 4,805,050 | 2,148,029 | 2,959,321 |
| | ----- | ----- | ----- | ----- | ----- |
| OPERATING COSTS AND EXPENSES: | | | | | |
| Cost of revenues | 1,405,979 | 1,582,708 | 2,544,105 | 1,146,150 | 1,470,943 |
| Research and development technical staff | 291,293 | 414,122 | 431,808 | 172,593 | 333,604 |
| Sales and marketing | 819,718 | 968,597 | 1,024,984 | 464,240 | 698,794 |
| General and administrative | 567,660 | 713,601 | 738,932 | 363,917 | 442,499 |
| | ----- | ----- | ----- | ----- | ----- |
| Total operating costs and expenses | 3,084,650 | 3,679,028 | 4,739,829 | 2,146,900 | 2,945,840 |
| | ----- | ----- | ----- | ----- | ----- |
| INCOME FROM OPERATIONS | 265,953 | 130,603 | 65,221 | 1,129 | 13,481 |
| | ----- | ----- | ----- | ----- | ----- |
| OTHER EXPENSE (INCOME): | | | | | |
| Interest expense | 17,470 | 18,513 | 49,867 | 21,862 | 25,665 |
| Interest income | (77) | (2,189) | (35) | (44) | (83) |
| | ----- | ----- | ----- | ----- | ----- |
| Other expense - net | 17,393 | 16,324 | 49,832 | 21,818 | 25,582 |
| | ----- | ----- | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE | | | | | |
| INCOME TAXES | 248,560 | 114,279 | 15,389 | (20,689) | (12,101) |
| PROVISION (CREDIT) FOR INCOME | | | | | |
| TAXES (Note G) | 98,517 | 47,780 | 6,434 | (8,650) | (5,059) |
| | ----- | ----- | ----- | ----- | ----- |
| NET INCOME (LOSS) | \$ 150,043 | \$ 66,499 | \$ 8,955 | \$ (12,039) | \$ (7,042) |
| | ----- | ----- | ----- | ----- | ----- |
| | ----- | ----- | ----- | ----- | ----- |

See notes to financial statements.

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GRAPEVINE SYSTEMS, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| | COMMON STOCK | | | | | |
|---|--------------|----------|---------|----------|----------------------------------|----------------------|
| | CLASS A | | CLASS B | | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS |
| | SHARES | AMOUNT | SHARES | AMOUNT | | |
| BALANCE, January 1, 1993 | 63,150 | \$ 6,315 | 18,000 | \$ 1,800 | \$ 84,661 | \$ 409,890 |
| Issuance of Class B common stock | - | - | 3,000 | 300 | 27,677 | - |
| Repurchase of Class A common stock | - | - | - | - | - | - |
| Repurchase of Class B common stock | - | - | - | - | - | - |
| Amount vested during 1993 | - | - | - | - | - | - |
| 1993 net income | - | - | - | - | - | 150,043 |
| ----- | | | | | | |
| BALANCE, December 31, 1993 | 63,150 | 6,315 | 21,000 | 2,100 | 112,338 | 559,933 |
| Stock split | 1,515,600 | - | 504,000 | - | - | - |
| Issuance of Class B common stock | - | - | 4,125 | 16 | 2,354 | - |
| Conversion of Class A common stock to Class B common stock | (33,750) | (135) | 33,750 | 135 | - | - |
| Repurchase of Class B common stock | - | - | - | - | - | - |
| Amount vested during 1994 | - | - | - | - | - | - |
| 1994 net income | - | - | - | - | - | 66,499 |
| ----- | | | | | | |
| BALANCE, December 31, 1994 | 1,545,000 | 6,180 | 562,875 | 2,251 | 114,692 | 626,432 |
| Issuance of Class B common stock | - | - | - | - | 2,651 | - |
| Repurchase of Class A common stock | - | - | - | - | - | - |
| Repurchase of Class B common stock | - | - | - | - | - | - |
| Amount vested during 1995 | - | - | - | - | - | - |
| 1995 net income | - | - | - | - | - | 8,955 |
| ----- | | | | | | |
| BALANCE, December 31, 1995 | 1,545,000 | 6,180 | 562,875 | 2,251 | 117,343 | 635,387 |
| Issuance of Class B common stock (unaudited) | - | - | - | - | 7,587 | - |
| Repurchase of Class B common stock (unaudited) | - | - | - | - | - | - |
| Amount vested during 1996 (unaudited) | - | - | - | - | - | - |
| 1996 six month net loss (unaudited) | - | - | - | - | - | (7,042) |
| ----- | | | | | | |
| BALANCE, June 30, 1996 (Unaudited) | 1,545,000 | \$ 6,180 | 562,875 | \$ 2,251 | \$ 124,930 | \$ 628,345 |
| ----- | | | | | | |

| | TREASURY STOCK | | | | | |
|---|----------------|-------------|----------|-------------|---|------------|
| | CLASS A | | CLASS B | | NON-VESTED EMPLOYEE STOCK COMPENSATION | TOTAL |
| | SHARES | AMOUNT | SHARES | AMOUNT | | |
| BALANCE, January 1, 1993 | 10,400 | \$ (36,239) | 2,100 | \$ (4,220) | \$ (22,582) | \$ 439,625 |
| Issuance of Class B common stock | - | - | (1,850) | 3,082 | (31,059) | - |
| Repurchase of Class A common stock | 600 | (3,281) | - | - | - | (3,281) |
| Repurchase of Class B common stock | - | - | 730 | (3,774) | - | (3,774) |
| Amount vested during 1993 | - | - | - | - | 28,012 | 28,012 |
| 1993 net income | - | - | - | - | - | 150,043 |
| ----- | | | | | | |
| BALANCE, December 31, 1993 | 11,000 | (39,520) | 980 | (4,912) | (25,629) | 610,625 |
| Stock split | 264,000 | - | 23,520 | - | - | - |
| Issuance of Class B common stock | - | - | (5,675) | 947 | (3,317) | - |
| Conversion of Class A common stock to Class B common stock | (33,750) | 6,690 | 33,750 | (6,690) | - | - |
| Repurchase of Class B common stock | - | - | 19,900 | (5,016) | - | (5,016) |
| Amount vested during 1994 | - | - | - | - | 19,717 | 19,717 |
| 1994 net income | - | - | - | - | - | 66,499 |
| ----- | | | | | | |
| BALANCE, December 31, 1994 | 241,250 | (32,830) | 72,475 | (15,671) | (9,229) | 691,825 |
| Issuance of Class B common stock | - | - | (19,850) | 5,003 | (7,654) | - |
| Repurchase of Class A common stock | 4,500 | (1,735) | - | - | - | (1,735) |
| Repurchase of Class B common stock | - | - | 30,265 | (11,564) | - | (11,564) |
| Amount vested during 1995 | - | - | - | - | 12,123 | 12,123 |
| 1995 net income | - | - | - | - | - | 8,955 |
| ----- | | | | | | |
| BALANCE, December 31, 1995 | 245,750 | (34,565) | 82,890 | (22,232) | (4,760) | 699,604 |
| Issuance of Class B common stock (unaudited) | - | - | (37,500) | 7,159 | (14,746) | - |
| Repurchase of Class B common stock (unaudited) | - | - | 3,775 | (1,460) | 113 | (1,347) |
| Amount vested during 1996 (unaudited) | - | - | - | - | 13,438 | 13,438 |
| 1996 six month net loss (unaudited) | - | - | - | - | - | (7,042) |
| ----- | | | | | | |
| BALANCE, June 30, 1996 (Unaudited) | 245,750 | \$ (34,565) | 49,165 | \$ (16,533) | \$ (5,955) | \$ 704,653 |
| ----- | | | | | | |

See notes to financial statements.

GRAPEVINE SYSTEMS, INC.

STATEMENTS OF CASH FLOWS

| | YEAR ENDED DECEMBER 31, | | | SIX MONTHS ENDED JUNE 30, | |
|---|-------------------------|-----------|-----------|------------------------------|---------------------|
| | 1993 | 1994 | 1995 | 1995 | 1996 (UNAUDITED) |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Net income (loss) | \$ 150,043 | \$ 66,499 | \$ 8,955 | \$ (12,039) | \$ (7,042) |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities: | | | | | |
| Depreciation and amortization expense | 306,518 | 259,203 | 386,652 | 157,177 | 216,063 |
| Nonmonetary exchange of equipment | - | - | (50,000) | - | - |
| Vesting of stock under employee stock incentive plan | 28,012 | 19,717 | 12,123 | 4,184 | 13,551 |
| Changes in assets and liabilities: | | | | | |
| Accounts receivable | (251,965) | 10,094 | (192,034) | (224,586) | (264,573) |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 5,783 | (6,230) | (13,270) | 16,280 | 29,550 |
| Income taxes receivable | (15,786) | (44,224) | 62,811 | 52,274 | - |
| Prepaid expenses | (5,197) | 3,729 | (25,182) | (8,952) | 8,518 |
| Accounts payable | 26,375 | 14,598 | 13,847 | 100,262 | 82,013 |
| Accrued expenses | 21,599 | 3,298 | 120,198 | 54,940 | (28,300) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (32,467) | 40,180 | 220 | (35,155) | (34,150) |
| Deferred revenue | 21,798 | 39,847 | 64,779 | (18,186) | (48,995) |
| Deferred income taxes | 98,517 | 47,780 | 6,434 | (8,650) | (5,059) |
| Net cash flows from operating activities | 353,230 | 454,491 | 395,533 | 77,549 | (38,424) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Purchases of property and equipment | (68,563) | (84,425) | (26,893) | (4,171) | (44,056) |
| Additions to product development | (355,986) | (357,513) | (385,808) | (273,322) | (109,424) |
| Net cash flows from investing activities | (424,549) | (441,938) | (412,701) | (277,493) | (153,480) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Net proceeds from bank line of credit | 75,000 | 20,000 | 55,000 | 35,000 | 110,000 |
| Payments on long-term debt | (2,324) | (28,647) | (19,337) | (7,349) | (23,152) |
| Purchase of treasury stock | (7,055) | (5,016) | (13,299) | - | (1,460) |
| Net borrowings on notes payable | - | - | - | 170,000 | 100,000 |
| Net cash flows from financing activities | 65,621 | (13,663) | 22,364 | 197,651 | 185,388 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (5,698) | (1,110) | 5,196 | (2,293) | (6,516) |
| CASH AND CASH EQUIVALENTS - Beginning of Period | 10,272 | 4,574 | 3,464 | 3,464 | 8,660 |
| CASH AND CASH EQUIVALENTS - End of Period | \$ 4,574 | \$ 3,464 | \$ 8,660 | \$ 1,171 | \$ 2,144 |

See notes to financial statements.

GRAPEVINE SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS - Grapevine Systems, Inc. (the Company) is an Omaha, Nebraska, based professional software company that provides development services, product software, and consulting services for projects, large and small, to companies primarily in the United States who are engaged in a wide variety of industries. The Company specializes in providing programming services on Stratus hardware. Grapevine Systems, Inc. has developed special concentrations in the areas of application development, communication and performance analysis.

BASIS OF PRESENTATION OF UNAUDITED INTERIM FINANCIAL STATEMENTS - The balance sheet as of June 30, 1996 and the related statements of operations and cash flows for the six months ended June 30, 1995 and 1996, are unaudited. However, in the opinion of management, the interim financial statements include all adjustments, which consist of only normal recurring adjustments, necessary for fair presentation of the Company's financial

position and results of operations. The unaudited results of operations for the six months ended June 30, 1996, are not necessarily indicative of the results which may be expected for the entire year.

REVENUE RECOGNITION - The Company recognizes revenues upon the delivery of its products and services for the majority of its contracts. The Company has certain long-term contracts in which revenues are recognized using the percentage of completion method of accounting. Under this method, the percentage of completion is determined by relating the actual cost to date to the current estimated total cost. The asset, "costs and estimated earnings in excess of billings on uncompleted contracts," represents the excess of contract revenue recognized to date over actual billings to date. The liability, "billings in excess of costs and estimated earnings on uncompleted contracts," represents the excess of billings to date over the contract revenue recognized to date.

NEW ACCOUNTING PRONOUNCEMENTS - The Company has evaluated the impact that will result from adopting SFAS No. 121, ACCOUNTING FOR IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, which will be required to be adopted in the first quarter of 1996. The Company does not expect the impact from adoption to be material to its financial statements.

PRODUCT DEVELOPMENT - Product development costs related to the Company's software products are recognized as expenses when incurred until technological feasibility has been established for the product. Thereafter, up to the general release of the products to the customer, all product development costs are capitalized. Such costs are then amortized on a straight-line basis over the remaining estimated economic life of the product, not to exceed three years. At each balance sheet date, the unamortized product development cost is analyzed for net realizable value by estimating future gross revenues by product reduced by future estimated costs of completing and disposing of that product. During the year ended December 31, 1993, 1994 and 1995 and the six months ended June 30, 1996, \$355,986, \$357,513, \$385,808 and \$109,424 (unaudited) of product development costs were capitalized, respectively. Research and development expenses incurred prior to capitalization of product costs were \$647,278, \$771,638, \$817,616, \$445,915 (unaudited) and \$443,028 (unaudited) for the years ended December 31, 1993, 1994 and 1995 and the six months ended June 30, 1995 and 1996, respectively.

PROPERTY AND EQUIPMENT - Property and equipment is stated at cost and includes the cost of equipment leased by the Company under capital leases.

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Depreciation on property and equipment is provided utilizing accelerated methods over the following ranges of estimated useful lives:

| | LIFE IN YEARS |
|-------------------------------|---------------|
| Furniture and fixtures | 7 |
| Equipment | 5-7 |
| Leasehold improvements | 31-1/2 |
| Equipment under capital lease | 3-7 |

DEFERRED REVENUE - Deferred revenue primarily relates to amounts received on maintenance contracts. Revenue is recognized ratably over the term of the contract.

INCOME TAXES - Deferred income taxes have been provided in the financial statements to record appropriate amounts relating to temporary differences for income tax return and financial statement purposes. The Company uses the cash basis of accounting for income tax purposes, and the accrual basis of accounting for financial statement purposes. The Company follows Statement of Financial Accounting Standards No. 109, ACCOUNTING FOR INCOME TAXES.

CASH FLOW REPORTING - For purposes of the statements of cash flows, the Company considers all temporary investments purchased with a maturity of three months or less to be cash equivalents.

| | YEARS ENDED DECEMBER 31, | | | SIX MONTHS ENDED JUNE 30, | |
|--|--------------------------|-------------|-------------|------------------------------|---------------------|
| | 1993 | 1994 | 1995 | 1995 | 1996 (UNAUDITED) |
| Cash paid during the year for: | | | | | |
| Interest on borrowings | \$ 15,463 | \$ 20,522 | \$ 48,113 | \$ 25,945 | \$ 18,364 |
| | ----- | ----- | ----- | ----- | ----- |
| | ----- | ----- | ----- | ----- | ----- |
| Income taxes paid (refunded) | \$ 25,347 | \$ 51,002 | \$ (72,205) | \$ (49,200) | \$ 2,036 |
| | ----- | ----- | ----- | ----- | ----- |
| | ----- | ----- | ----- | ----- | ----- |
| Schedule of non-cash financing activities: | | | | | |
| Employee compensation paid through employee stock incentive plan (Note H): | | | | | |
| Book value of Class B common stock shares issued | \$ 31,059 | \$ 3,317 | \$ 7,654 | \$ - | 14,746 |
| Book value of Class B common stock shares vested | (28,012) | (19,717) | (12,123) | (4,184) | (13,438) |
| | ----- | ----- | ----- | ----- | ----- |
| | \$ 3,047 | \$ (16,400) | \$ (4,469) | \$ (4,184) | \$ 1,308 |
| | ----- | ----- | ----- | ----- | ----- |
| | ----- | ----- | ----- | ----- | ----- |
| Schedule of non-cash investing activities: | | | | | |
| Acquisition of property in exchange for capital lease obligation | \$ 8,395 | \$ 26,315 | \$ 30,137 | \$ 30,137 | \$ 131,498 |
| | ----- | ----- | ----- | ----- | ----- |
| | ----- | ----- | ----- | ----- | ----- |
| Acquisition of property in exchange for services rendered | \$ - | \$ 3,081 | \$ 50,000 | \$ - | \$ - |
| | ----- | ----- | ----- | ----- | ----- |
| | ----- | ----- | ----- | ----- | ----- |

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In 1995, the Company received title to a computer with a fair value of \$50,000. In exchange for this computer, the Company provided consulting services. In 1995, the Company recognized \$50,000 of revenue on this transaction.

In 1991, the Company received title to a mainframe computer with a fair value of \$220,000. In exchange for this computer the Company agreed to complete development of certain software as well as honor a maintenance agreement with a vendor. In 1993, the Company recognized \$27,000 of revenue on this transaction.

STOCK SPLIT - On November 18, 1994 the Company amended its Articles of Incorporation for a 25 to 1 stock split. The amendment increased the authorized capital stock from 100,000 shares at \$.10 par value to 2,500,000 shares at \$.004 par value. The Corporation then issued 25 shares of Class A and Class B common stock at \$.004 per share in exchange for each outstanding share of Class A and Class B common stock at \$.10 per share. The Company also converted 33,750 shares of Class A common stock to Class B common stock at \$.004 per share, from each of the respective classes Treasury stock.

RECLASSIFICATIONS - Certain amounts in the 1993 and 1994 financial statements have been reclassified to conform to the 1995 presentation format.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principals 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

B. LONG-TERM CONTRACTS IN PROGRESS

Information with respect to contracts in progress is as follows:

| | DECEMBER 31, | | JUNE 30, |
|--|--------------|-------------|---------------------|
| | 1994 | 1995 | 1996 (UNAUDITED) |
| Costs incurred and estimated earnings on uncompleted contracts | \$ 16,280 | \$ 69,550 | \$ 22,500 |
| Less billings to date | 40,180 | 80,400 | 28,750 |
| | ----- | ----- | ----- |
| | \$ (23,900) | \$ (10,850) | \$ (6,250) |
| | ----- | ----- | ----- |

These balances are included in the accompanying balance sheets under the following captions:

| | DECEMBER 31, | | JUNE 30, |
|---|--------------|-------------|---------------------|
| | 1994 | 1995 | 1996 (UNAUDITED) |
| Costs and estimated earnings in excess of billings on uncompleted contracts | \$ 16,280 | \$ 29,550 | \$ - |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 40,180 | 40,400 | 6,250 |
| | ----- | ----- | ----- |
| | \$ (23,900) | \$ (10,850) | \$ (6,250) |
| | ----- | ----- | ----- |

C. BANK LINE OF CREDIT

The line of credit consists of the following:

| | DECEMBER 31, | | JUNE 30, |
|--|--------------|------------|---------------------|
| | 1994 | 1995 | 1996 (UNAUDITED) |
| \$500,000 revolving line of credit with a bank, due August 15, 1996, payments of interest at the bank's base rate of 10.75% at December 31, 1995, and 10.75% at June 30, 1996 (unaudited), due monthly, secured by all Company assets and guarantees by certain officers and shareholders of the Company | \$ 295,000 | \$ 250,000 | \$ 360,000 |
| | ----- | ----- | ----- |

In connection with the line of credit the Company has agreed to certain covenants which, among other things, require total stockholders' equity to remain above \$250,000, minimum debt to net worth, and current ratio requirements. At December 31, 1995, the Company was in violation of several covenants, all which have been waived by the bank. At June 30, 1996, the Company was in violation of several covenants, all of which have been waived by the bank.

The line of credit is subject to a maximum borrowing base of 80% of accounts receivable outstanding less than 90 days. At December 31, 1995 and June 30, 1996, \$500,000 was available on the line of credit, of which \$250,000 and \$360,000 (unaudited) was outstanding.

D. NOTE PAYABLE

The term loan consists of the following:

| | DECEMBER 31, | | JUNE 30, |
|---|--------------|------------|-------------|
| | 1994 | 1995 | 1996 |
| | | | (UNAUDITED) |
| Note payable with a bank, due August 12, 1996, with interest at 10.75% at December 31, 1995 and 10.50% at June 30, 1996 (unaudited), due along with principal at maturity, secured by all Company assets and guarantees by certain officers and shareholders of the Company | \$ - | \$ 100,000 | \$ 200,000 |
| | ----- | ----- | ----- |
| | ----- | ----- | ----- |

E. STOCKHOLDER NOTES PAYABLE

Stockholder notes payable of \$18,000 were paid off in 1994.

F. CAPITAL LEASE OBLIGATIONS

Capital lease obligations were as follows:

| | DECEMBER 31, | | JUNE 30, |
|---|--------------|-----------|-------------|
| | 1994 | 1995 | 1996 |
| | | | (UNAUDITED) |
| Capital lease obligations, effective interest rates ranging from 8.5% to 10.75% | \$ 21,740 | \$ 32,541 | \$ 140,887 |
| Less current portion | 11,810 | 24,453 | 55,402 |
| | ----- | ----- | ----- |
| Long-term capital lease obligations | \$ 9,930 | \$ 8,088 | \$ 85,485 |
| | ----- | ----- | ----- |
| | ----- | ----- | ----- |

G. INCOME TAXES

The provision for income taxes consists of:

| | YEARS ENDED DECEMBER 31, | | | SIX MONTHS ENDED JUNE 30, | |
|----------|--------------------------|-----------|----------|------------------------------|------------|
| | 1993 | 1994 | 1995 | 1995 (UNAUDITED) | 1996 |
| Current: | | | | | |
| Federal | \$ - | \$ - | \$ - | \$ - | \$ - |
| State | - | - | - | - | - |
| Deferred | 98,517 | 47,780 | 6,434 | (8,650) | (5,059) |
| | ----- | ----- | ----- | ----- | ----- |
| | \$ 98,517 | \$ 47,780 | \$ 6,434 | \$ (8,650) | \$ (5,059) |
| | ----- | ----- | ----- | ----- | ----- |

Total tax expense for the year varies from the amount which would be provided by applying the statutory income tax rate to earnings before income taxes. The major reasons for this difference (expressed as a percentage of pre-tax income) are as follows:

| | YEARS ENDED DECEMBER 31, | | | SIX MONTHS ENDED JUNE 30, | |
|-------------------------|--------------------------|-------|-------|------------------------------|-------|
| | 1993 | 1994 | 1995 | 1995 (UNAUDITED) | 1996 |
| Statutory rate | 34.0% | 34.0% | 34.0% | 34.0% | 34.0% |
| State income tax effect | 5.1% | 5.51% | 5.51% | 5.51% | 5.51% |
| Other | 0.5% | 2.29% | 2.29% | 2.29% | 2.29% |
| | ----- | ----- | ----- | ----- | ----- |
| | 39.6% | 41.8% | 41.8% | 41.8% | 41.8% |
| | ----- | ----- | ----- | ----- | ----- |

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The net deferred income tax liability resulting from reporting revenue and expenses in different periods for tax and financial reporting purposes is as follows:

| | DECEMBER 31, | |
|-----------------------------------|--------------|--------------|
| | 1994 | 1995 |
| Deferred income tax assets: | | |
| Net operating loss carryforward | \$ 18,530 | \$ 62,190 |
| Income tax credits | 101,120 | 116,521 |
| Accounts payable | 45,111 | 52,262 |
| Other | 59,486 | 127,118 |
| | ----- | ----- |
| Total | 224,247 | 358,091 |
| | ----- | ----- |
| Valuation allowance | (38,644) | (48,082) |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Accounts receivable | (230,463) | (285,236) |
| Product development costs | (262,383) | (303,422) |
| Other | (27,818) | (62,846) |
| | ----- | ----- |
| Total | (520,664) | (651,504) |
| | ----- | ----- |
| Net deferred income tax liability | \$ (335,061) | \$ (341,495) |

At December 31, 1995, the Company had the following tax net operating losses:

| Expiration | Federal | State |
|------------|-----------|-----------|
| Year 2009 | \$ 26,793 | \$ 84,597 |
| Year 2010 | 115,355 | 115,355 |

H. EMPLOYEE STOCK INCENTIVE PLAN

In 1988, the Company established an employee stock incentive plan to provide the employees of the Company with an opportunity to share in the growth of the Company on a voluntary basis.

Under the current plan, the employees are not required to pay for the stock but instead those choosing to participate receive the stock as compensation. The stock is subject to buy-sell agreements which give the Company right of first refusal to repurchase the stock at book value under certain conditions as well as other restrictions.

The stock is issued at its net book value, which the Board of Directors has determined to approximate market value, and ownership vests over three years from the date of issue. Compensation to the employee, equal to the net book value of the stock, is recognized by the Company as the ownership vests.

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The Company has authorized 562,875 shares of Class B non-voting common stock for issuance under this plan. During fiscal year 1993, 1994, 1995 and the six months ended June 30, 1996, the Company issued 121,250, 9,800, 19,850, and 10,000 (unaudited) shares under the plan, respectively. The Company also issued 27,500 (unaudited) shares of Class B non-voting common stock as compensation to certain individuals during the six months ended June 30, 1996. The Company repurchased 18,250, 19,900, 30,265, and 3,775 (unaudited) shares of the stock issued under the plan at a cost of \$3,774, \$5,016, \$11,564, and \$1,460 (unaudited) as of December 31, 1993, 1994, 1995, and the six months ended June 30, 1996, respectively. Of the remaining 486,610 shares (unaudited) at June 30, 1996 issued under the plan, 472,157 (unaudited) have vested with participating employees. If the Company decides to repurchase these vested shares, a contingent liability exist to the Company upon repurchase of \$182,814 at December 31, 1995. The above shares have been restated to reflect the 25 to 1 stock split that occurred in 1994.

In addition, the Company issued 60,000 and 31,250 shares of Class A voting common stock under the plan during 1988 and 1992, respectively. No shares were issued under the Plan during 1993, 1994, or 1995. The Company repurchased 15,000, -0-, 4,500 and -0- (unaudited) of such shares at a cost of \$3,281, \$-0-, \$1,735 and \$-0- (unaudited) as of December 31, 1993, 1994, 1995 and the six months ended June 30, 1996, respectively. Of the remaining 61,750 shares issued under the plan, 61,750 have vested with participating employees. If the Company decides to repurchase these vested shares, a contingent liability exist to the Company upon repurchase of \$24,280 at December 31, 1995. The above shares have been restated to reflect the 25 to 1 stock split that occurred in 1994.

I. DEFINED CONTRIBUTION PLAN

The Company adopted a 401(k) Defined Contribution Plan on January 1, 1993. The Plan year ends December 31. Employer contributions are discretionary. Employees may contribute up to 10% of their compensation subject to an annual limit established by the Internal Revenue Service. For the years ended December 31, 1993, 1994 and 1995 and the six months ended June 30, 1995 and 1996 (unaudited), the Company elected not to make a contribution to the Plan.

J. COMMITMENTS

The Company leases office space under an operating lease. Total rent expense amounted to \$154,854, \$184,515, \$186,663, \$92,591 (unaudited) and \$99,112 (unaudited) for the years ended December 31, 1993, 1994 and 1995 and the six months ended June 30, 1995 and 1996, respectively.

The future minimum rental payments under the operating leases as of December 31, 1995 are as follows:

| | |
|------|------------|
| 1996 | \$ 117,137 |
| 1997 | 58,568 |
| | ----- |
| | \$ 175,705 |
| | ----- |
| | ----- |

In addition to the basic annual rent noted above, the Company is required to pay a portion of the direct expenses of the building through "additional rent". The direct expenses charged back to the Company are capped at an annual increase of 5%. The Company estimates the additional rent cap for 1996 will be approximately \$81,200.

At December 31, 1995, the Company has entered into a 36 month lease agreement to acquire computer equipment. This computer equipment will be treated as a capital lease with a fair value of \$96,336. The Company had not yet received the equipment as of December 31, 1995 and, accordingly, has not recorded this agreement in the accounting records of the Company at that date.

The Company has issued Class A Common Stock to the founders and certain officers which gives the Company right of first refusal to repurchase the stock at book value under certain conditions as well as other restrictions. At December 31, 1995, 1,237,500 shares were outstanding and have vested. If the Company decides to repurchase these vested shares, a contingent liability exist to the Company under repurchase of \$486,585 at December 31, 1995.

K. MAJOR CUSTOMERS

The Company has major customers who have accounted for a significant portion of revenues over the three years ended December 31, 1995. Sales to major customers were \$1,209,352, \$1,166,752, \$1,948,418, \$1,068,393 (unaudited) and \$1,693,589 (unaudited) which represents 39%, 34%, 44%, 56% (unaudited) and 61% (unaudited) of total revenues for the years ended December 31, 1993, 1994, 1995 and the six months ended June 30, 1995 and 1996, respectively. The major customers for 1996 were not the same as those for 1995, 1994 and 1993.

L. SUBSEQUENT EVENTS (UNAUDITED)

On July 15, 1996, the Company entered into a merger agreement whereby all of the common stock of the Company will be exchanged for a specified number of common stock shares of Transaction Systems Architects, Inc. in accordance with the merger agreement. The merger will be accounted for as a pooling of interests transaction.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma consolidated financial statements give effect to the share exchange pursuant to the Stock Exchange Agreement dated July 15, 1996 between TSA and Grapevine. The pro forma consolidated balance sheet assumes that the share exchange occurred on June 30, 1996. The pro forma consolidated statements of operations assume that the share exchange

occurred as of October 1, 1992. The share exchange will be accounted for as a pooling of interests. In addition, the pro forma consolidated statements of operations for the year ended September 30, 1995 and the nine months ended June 30, 1996 give effect to TSA's acquisition of substantially all of the net assets of TXN Solution Integrators (TXN) as if it occurred October 1, 1994. The TXN acquisition occurred on June 3, 1996 and was accounted for under the purchase method of accounting. The pro forma consolidated financial statements presented herein are shown for illustrative purposes only and are not necessarily indicative of the future financial position or future results of operations of the Company, or of the financial position or results of operations of the Company that would have actually occurred had the transactions been in effect as of the date or for the periods presented. The Grapevine financial information was derived by segregating audited annual financial numbers into the four quarters ended for the respective periods and summarizing this quarterly information into the pro forma periods shown.

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TRANSACTION SYSTEMS ARCHITECTS INC.
PRO FORMA CONSOLIDATED BALANCE SHEET
JUNE 30, 1996
(UNAUDITED, IN THOUSANDS AND U.S. DOLLARS)

| | TSA Historical | Grapevine Historical | Pro Forma Adjustments | Pro Forma Combined |
|--|-------------------|-------------------------|--------------------------|-----------------------|
| | ----- | ----- | ----- | ----- |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 22,946 | \$ 2 | \$ | \$ 22,948 |
| Receivables, net | 48,943 | 1,086 | | 50,029 |
| Other | 4,772 | 25 | | 4,797 |
| | ----- | ----- | ----- | ----- |
| Total current assets | 76,661 | 1,113 | 0 | 77,774 |
| Property and equipment, net | 12,338 | 344 | | 12,682 |
| Software, net | 5,083 | 727 | | 5,810 |
| Intangible assets, net | 7,206 | | | 7,206 |
| Installment receivables | 1,029 | | | 1,029 |
| Investment and notes receivable | 7,275 | | | 7,275 |
| Other | 2,046 | | | 2,046 |
| | ----- | ----- | ----- | ----- |
| Total assets | \$ 111,638 | \$ 2,184 | \$ 0 | \$ 113,822 |
| | ----- | ----- | ----- | ----- |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Current portion of long-term debt | \$ 741 | \$ 560 | \$ | \$ 1,301 |
| Current portion of capital lease obligations | 314 | 55 | | 369 |
| Accounts payable | 5,654 | 204 | | 5,858 |
| Accrued employee compensation | 3,861 | | | 3,861 |
| Accrued liabilities | 6,273 | 163 | | 6,436 |
| Income taxes | 4,607 | 336 | | 4,943 |
| Deferred revenue | 18,753 | 77 | | 18,830 |
| | ----- | ----- | ----- | ----- |
| Total current liabilities | 40,203 | 1,395 | 0 | 41,598 |
| Long-term debt | 1,421 | | | 1,421 |
| Capital lease obligations | 126 | 85 | | 211 |
| | ----- | ----- | ----- | ----- |
| Total liabilities | 41,750 | 1,480 | 0 | 43,230 |
| | ----- | ----- | ----- | ----- |
| Stockholders' equity: | | | | |
| Common Stock | 127 | 8 | (6) (a) | 129 |
| Additional paid-in capital | 93,557 | 119 | (45) (a) | 93,631 |
| Accumulated translation adjustments | (272) | | | (272) |
| Accumulated deficit | (23,512) | 628 | | (22,884) |
| Treasury stock at cost | (12) | (51) | 51 (a) | (12) |
| | ----- | ----- | ----- | ----- |
| Total stockholders' equity | 69,888 | 704 | 0 | 70,592 |
| | ----- | ----- | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 111,638 | \$ 2,184 | \$ 0 | \$ 113,822 |
| | ----- | ----- | ----- | ----- |

See notes to pro forma consolidated financial statements

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TRANSACTION SYSTEMS ARCHITECTS, INC.
 PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
 Year Ended September 30, 1993
 (unaudited, in thousands and in U.S. dollars)

| | TSA Historical (b) | Grapevine Historical | Pro Forma Adjustments | TSA/Grapevine Combined |
|-----------------------------------|-----------------------|-------------------------|--------------------------|---------------------------|
| Revenues: | | | | |
| Software license fees | \$ - | \$ 200 | \$ - | \$ 200 |
| Maintenance fees | - | 111 | - | 111 |
| Services | - | 2,904 | - | 2,904 |
| Total revenues | - | 3,215 | 0 | 3,215 |
| Expenses: | | | | |
| Cost of software license fees: | | | | |
| Software costs | - | 216 | - | 216 |
| Cost of maintenance and services | - | 1,168 | - | 1,168 |
| Research and development: | | | | |
| Research and development costs | - | 139 | - | 139 |
| Selling and marketing | - | 818 | - | 818 |
| General and administrative: | | | | |
| General and administrative costs | - | 556 | - | 556 |
| Total expenses | - | 2,897 | 0 | 2,897 |
| Operating income | - | 318 | 0 | 318 |
| Other income (expense): | | | | |
| Interest expense | - | (19) | - | (19) |
| Total other | - | (19) | 0 | (19) |
| Income before income taxes | - | 299 | 0 | 299 |
| Provision for income taxes | - | (118) | - | (118) |
| Net income | \$ - | \$ 181 | \$ 0 | \$ 181 |

See notes to pro forma consolidated financial statements

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TRANSACTION SYSTEMS ARCHITECTS, INC.
 PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
 Year Ended September 30, 1994
 (unaudited, in thousands, except share and per
 share amounts, and in U.S. dollars)

| | TSA Historical (c) | Grapevine Historical | Pro Forma Adjustments | TSA/Grapevine Combined |
|-----------------------|-----------------------|-------------------------|--------------------------|---------------------------|
| Revenues: | | | | |
| Software license fees | \$ 36,696 | \$ 296 | \$ - | \$ 36,992 |
| Maintenance fees | 18,570 | 55 | - | 18,625 |
| Services | 15,095 | 3,179 | (154) (d) | 18,120 |
| Hardware, net | 3,702 | - | - | 3,702 |

| | | | | |
|--|-------------|--------|-----------|-------------|
| Total revenues | 74,063 | 3,530 | (154) | 77,439 |
| Expenses: | | | | |
| Cost of software license fees: | | | | |
| Software costs | 7,310 | 224 | | 7,534 |
| Amortization of purchased software | 2,342 | | | 2,342 |
| Purchased contracts in progress | 12,398 | | | 12,398 |
| Cost of maintenance and services | 18,352 | 1,175 | (154) (d) | 19,373 |
| Research and development: | | | | |
| Research and development costs | 8,432 | 154 | | 8,586 |
| Charge for purchased research and development | 22,712 | | | 22,712 |
| Selling and marketing | 17,761 | 917 | | 18,678 |
| General and administrative: | | | | |
| General and administrative costs | 13,007 | 652 | | 13,659 |
| Amortization of goodwill and purchased intangibles | 834 | | | 834 |
| Total expenses | 103,148 | 3,122 | (154) | 106,116 |
| Operating income (loss) | (29,085) | 408 | 0 | (28,677) |
| Other income (expense): | | | | |
| Interest income | 416 | | | 416 |
| Interest expense | (3,042) | (16) | | (3,058) |
| Other | 172 | | | 172 |
| Total other | (2,454) | (16) | 0 | (2,470) |
| Income (loss) before income taxes | (31,539) | 392 | 0 | (31,147) |
| Provision for income taxes | (1,999) | (165) | | (2,164) |
| Net income (loss) | \$ (33,538) | \$ 227 | \$ 0 | \$ (33,311) |
| Net income per common and equivalent share | \$ (1.66) | | | \$ (1.61) |
| Weighted average shares outstanding | 20,208 | | 370 (a) | 20,578 |

See notes to pro forma consolidated financial statements

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TRANSACTION SYSTEMS ARCHITECTS INC.
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended September 30, 1995
(unaudited, in thousands, except share and per share amounts, and in U.S. dollars)

| | TSA Historical | Grapevine Historical | Pro Forma Adjustments | TSA/ Grapevine Combined | TXN Historical | Pro Forma Adjustments | Pro Forma Combined |
|--|-------------------|-------------------------|--------------------------|-------------------------------|-------------------|--------------------------|-----------------------|
| Revenue: | | | | | | | |
| Software license fees | \$ 57,758 | \$ 270 | \$ | \$ 58,028 | \$ 2,219 | \$ (1,446) (e) | \$ 58,801 |
| Maintenance fees | 29,109 | 58 | | 29,167 | 3,573 | (741) (e) | 31,999 |
| Services | 23,467 | 3,309 | (52) (d) | 26,724 | 4,401 | (178) (e) | 30,947 |
| Hardware, net | 4,554 | | | 4,554 | 1,046 | (11) (e) | 5,589 |
| Total revenues | 114,888 | 3,637 | (52) | 118,473 | 11,239 | (2,376) | 127,336 |
| Expenses: | | | | | | | |
| Cost of software license fees: | | | | | | | |
| Software costs | 12,827 | 312 | | 13,139 | 1,472 | (1,457) (e) | 13,154 |
| Amortization of purchased software | 3,165 | | | 3,165 | | 123 (f) | 3,288 |
| Purchased contracts in progress | 2,956 | | | 2,956 | | | 2,956 |
| Cost of maintenance and services | 26,863 | 1,675 | (52) (d) | 28,486 | 6,386 | (66) (g) | 33,887 |
| Research and development | 12,323 | 269 | | 12,592 | | (919) (e) | 12,592 |
| Selling and marketing | 29,089 | 985 | | 30,074 | 1,148 | (3) (g) | 31,219 |
| General and administrative: | | | | | | | |
| General and administrative costs | 17,898 | 753 | | 18,651 | 783 | (4) (g) | 19,430 |
| Amortization of goodwill and purchased intangibles | 344 | | | 344 | | 228 (h) | 572 |
| Total expenses | 105,465 | 3,994 | | 109,407 | 9,789 | (2,098) | 117,098 |

| | | | | | | | |
|---|----------|----------|---------|----------|----------|-----------|---------|
| Operating income (loss) | 9,423 | (357) | 0 | 9,066 | 1,450 | (278) | 10,238 |
| Other income (expense): | | | | | | | |
| Interest income | 1,075 | 2 | | 1,077 | 100 | (190) (i) | 987 |
| Interest expense | (1,707) | (44) | | (1,751) | (40) | | (1,791) |
| Other | 12 | | | 12 | 15 | | 27 |
| Total other | (620) | (42) | 0 | (662) | 75 | (190) | (777) |
| Income (loss) before income taxes | 8,803 | (399) | 0 | 8,404 | 1,525 | (468) | 9,461 |
| Provision for income taxes | (2,253) | 167 | 0 | (2,086) | | (423) (j) | (2,509) |
| Income before extraordinary loss | 6,550 | (232) | 0 | 6,318 | 1,525 | (891) | 6,952 |
| Extraordinary loss | (2,750) | | | (2,750) | | | (2,750) |
| Net income (loss) | \$ 3,800 | \$ (232) | 0 | \$ 3,568 | \$ 1,525 | (891) | 4,202 |
| Net income per common and equivalent share: | | | | | | | |
| Before extraordinary loss | \$ 0.29 | | | \$ 0.27 | | | \$ 0.30 |
| Extraordinary loss | (0.12) | | | (0.12) | | | (0.12) |
| Net income (loss) | \$ 0.17 | | | \$ 0.15 | | | \$ 0.18 |
| Weighted average shares outstanding | 22,871 | | 370 (a) | 23,241 | | | 23,241 |

See notes to pro forma consolidated financial statements

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TRANSACTION SYSTEMS ARCHITECTS INC.
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
Nine Months Ended June 30, 1996
(unaudited, in thousands, except share and per share amounts, and in U.S. dollars)

| | TSA Historical | Grapevine Historical | Pro Forma Adjustments | TSA/ Grapevine Combined | TXN Historical | Pro Forma Adjustments | Pro Forma Combined |
|--|-------------------|-------------------------|--------------------------|-------------------------------|-------------------|--------------------------|-----------------------|
| Revenue: | | | | | | | |
| Software license fees | \$ 55,614 | \$ 590 | \$ | \$ 56,204 | \$ 1,263 | \$ (837) (e) | \$ 56,630 |
| Maintenance fees | 25,786 | 103 | | 25,889 | 2,400 | (584) (e) | 27,705 |
| Services | 25,778 | 3,481 | (405) (d) | 28,854 | 3,755 | (193) (e) | 32,416 |
| Hardware, net | 3,279 | | | 3,279 | 141 | (81) (e) | 3,339 |
| Total revenues | 110,457 | 4,174 | (405) | 114,226 | 7,559 | (1,695) | 120,090 |
| Expenses: | | | | | | | |
| Cost of software license fees: | | | | | | | |
| Software costs | 13,516 | 433 | | 13,949 | 859 | (918) (e) | 13,890 |
| Amortization of purchased software | 2,356 | | | 2,356 | | 82 (f) | 2,438 |
| Cost of maintenance and services | 27,245 | 1,753 | (405) (d) | 28,593 | 4,877 | (61) (g) | 32,632 |
| Research and development | 10,944 | 237 | | 11,181 | | (777) (e) | 11,181 |
| Selling and marketing | 23,594 | 988 | | 24,582 | 656 | (2) (g) | 25,236 |
| General and administrative: | | | | | | | |
| General and administrative costs | 18,226 | 641 | | 18,867 | 429 | (3) (g) | 19,293 |
| Amortization of goodwill and purchased intangibles | 452 | | | 452 | | 152 (h) | 604 |
| Total expenses | 96,333 | 4,052 | (405) | 99,980 | 6,821 | (1,527) | 105,274 |
| Operating income (loss) | 14,124 | 122 | 0 | 14,246 | 738 | (168) | 14,816 |
| Other income (expense): | | | | | | | |
| Interest income | 1,580 | | | 1,580 | 80 | (120) (i) | 1,540 |
| Interest expense | (145) | (37) | | (182) | (2) | | (184) |
| Other | (180) | | | (180) | 23 | | (157) |
| Total other | 1,255 | (37) | 0 | 1,218 | 101 | (120) | 1,199 |
| Income (loss) before income taxes | 15,379 | 85 | 0 | 15,464 | 839 | (288) | 16,015 |
| Provision for income taxes | (6,250) | (35) | | (6,285) | | (220) (j) | (6,505) |
| Net income (loss) | \$ 9,129 | \$ 50 | \$ 0 | \$ 9,179 | \$ 839 | \$ (508) | \$ 9,510 |
| Net income per common and equivalent share | \$ 0.34 | | | \$ 0.34 | | | \$ 0.35 |
| Weighted average shares outstanding | 26,658 | | 370 (a) | 27,028 | | | 27,028 |

See notes to pro forma consolidated financial statements

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TRANSACTION SYSTEMS ARCHITECTS, INC.
NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

Note 1: The unaudited pro forma consolidated financial statements reflect the following adjustments:

ADJUSTMENTS RELATED TO THE GRAPEVINE SHARE EXCHANGE:

- (a) Adjustment to reflect the combination of TSA and Grapevine Stockholders' Equity accounts.
- (b) TSA was formed on November 2, 1993, therefore, there were no results of operations for TSA for the year ended September 30, 1993.
- (c) Includes results of operations of TSA for the period from inception (November 2, 1993) through September 30, 1994.
- (d) Adjustment to eliminate revenue and expenses associated with Grapevine services provided to TSA.

ADJUSTMENTS RELATED TO THE TXN PURCHASE:

- (e) Adjustment to eliminate royalties paid by TXN to TSA.
- (f) Adjustment to reflect additional amortization of purchased software.
- (g) Adjustment to reflect reduction in depreciation expense related to assets not acquired by TSA.
- (h) Adjustment to reflect amortization of goodwill.
- (i) Adjustment to eliminate interest earned on cash used to pay purchase price.
- (j) Adjustment to increase provision for income taxes arising from inclusion of the results of TXN's operations.

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EXHIBIT INDEX

| Exhibit Number | Description |
|-------------------|---|
| 2.09* | Stock Exchange Agreement by and among the Company, Grapevine Systems, Inc. and certain principal shareholders of Grapevine Systems, Inc., dated as of July 15, 1996 |
| 23.05 | Consent of Deloitte & Touche LLP |

* Incorporated by reference to the exhibit of the same number to the Registrant's Registration Statement No. 333-09811 on Form S-4.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statement on Form S-8 No. 333-2592, pertaining to the 1996 Stock Option Plan of Transaction Systems Architects, Inc., the Registration Statement on Form S-8 No. 333-2594, pertaining to the 1996 Employee Stock Purchase Plan of Transaction Systems Architects, Inc., the Registration Statement on Form S-8 No. 33-93900, pertaining to the 1994 Stock Option Plan of Transaction Systems Architects, Inc., and the Registration Statement on Form S-4 No. 333-09811 of our report dated February 9, 1996 on Grapevine Systems, Inc.'s financial statements as of December 31, 1994 and 1995 and for each of the three years in the period ended December 31, 1995 appearing in this Form 8-K of Transaction Systems Architects, Inc.

DELOITTE & TOUCHE LLP

Omaha, Nebraska
August 21, 1996