SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 1997

OR

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

For the transition period from to .

Commission File Number 0-25346

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

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

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

(402) 390-7600
(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 the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

24,073,431 shares of Class A Common Stock at May 5, 1997
2,171,252 shares of Class B Common Stock at May 5, 1997

TRANSACTION SYSTEMS ARCHITECTS, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1997
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TRANSACTION SYSTEMS ARCHITECTS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited and in thousands)

	March 31, 1997	September 30, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,153	$ 31,546
Billed receivables, net	38,017	29,851
Accrued receivables	22,875	19,284
Deferred income taxes	1,710	1,671
Other	1,595	1,010
Total current assets	102,350	83,362
Property and equipment, net	14,027	13,001
Software, net	5,297	5,424
Intangible assets, net	8,860	7,236
Installment receivables	1,210	1,593
Investment and notes receivable	6,494	8,105
Other	2,388	1,761
Total assets	$ 140,626	$ 120,482
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 779	$ 1,147
Current portion of capital lease obligations	285	342
Accounts payable	7,346	8,322
Accrued employee compensation	3,036	5,210
Accrued liabilities	9,533	7,631
Income taxes	2,888	1,706
Deferred revenue	25,243	17,987
Total current liabilities	49,110	42,345
Long-term debt	1,480	1,431
Capital lease obligations	280	256
Total liabilities	50,870	44,032
Stockholders' equity:		
Class A Common Stock	120	119
Class B Common Stock	11	11
Additional paid-in capital	100,350	96,062
Accumulated translation adjustments	71	(236)
Accumulated deficit	(10,784)	(19,494)
Treasury stock, at cost	(12)	(12)
Total stockholders' equity	89,756	76,450
Total liabilities and stockholders' equity	$ 140,626	$ 120,482

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	1997	1996	1997	1996
Revenues:				
Software license fees	$ 29,200	$ 19,018	$ 54,451	$ 36,235
Maintenance fees	10,009	8,412	19,970	16,821
Services	11,148	9,169	23,025	17,787
Hardware, net	784	1,063	1,337	2,302
Total revenues	51,141	37,662	98,783	73,145
Expenses:				
Cost of software license fees:				
Software costs	6,213	4,871	11,610	8,776
Amortization of purchased software	0	785	801	1,573
Cost of maintenance and services	12,019	9,437	24,492	18,208
Research and development	4,475	3,788	8,430	7,325
Selling and marketing	11,523	7,864	21,805	16,268
General and administrative:				
General and administrative costs	8,205	6,079	15,871	11,774
Amortization of goodwill and purchased intangibles	237	145	454	295
Total expenses	42,672	32,969	83,463	64,219
Operating income	8,469	4,693	15,320	8,926
Other income (expense):				
Interest income	488	568	915	1,136
Interest expense	(24)	(51)	(82)	(81)
Other	(227)	(84)	(544)	(128)
Total other	237	433	289	927
Income before income taxes	8,706	5,126	15,609	9,853
Provision for income taxes	(3,625)	(2,095)	(6,723)	(3,893)
Net income	$ 5,081	$ 3,031	$ 8,886	$ 5,960
Net income per common and equivalent share	$ 0.19	$ 0.11	$ 0.33	$ 0.22
Weighted average shares outstanding	26,977	27,024	26,988	26,966

See notes to condensed consolidated financial statements.

TRANSACTION SYSTEMS ARCHITECTS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the six months ended March 31, 1997
(unaudited and in thousands)

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Accumulated Translation Adjustments	Accumulated Deficit	Treasury Stock	Total
Balance, September 30, 1996	$ 119	$ 11	$ 96,062	$ (236)	$ (19,494)	$ (12)	$ 76,450
Adjustment for Open Systems Solutions, Inc. pooling of interests	1		5		(176)		(170)
Issuance of Class A Common Stock			391				391
Exercise of stock options			363				363
Tax benefit of stock options exercised			981				981
Sale of stock options			2,548				2,548
Net Income					8,886		8,886
Translation adjustments				307			307
Balance, March 31, 1997	$ 120	$ 11	$ 100,350	$ 71	$ (10,784)	$ (12)	$ 89,756

See notes to condensed consolidated financial statements.

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

	Six Months Ended March 31, 1997	Six Months Ended March 31, 1996
Cash flows from operating activities:		
Net income	$ 8,886	$ 5,960
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,596	2,064
Amortization	2,518	2,885
Increase in receivables, net	(11,006)	(1,472)
Decrease in other current assets	2,034	415
Decrease in installment receivables	383	848
Increase in other assets	(26)	(1,090)
Increase (decrease) in accounts payable	(1,125)	1,074
Decrease in accrued employee compensation	(2,209)	(1,009)
Increase (decrease) in accrued liabilities	3,145	(1,288)
Decrease in income tax liabilities	(563)	(674)
Increase (decrease) in deferred revenue	6,463	(843)
Net cash provided by operating activities	11,096	6,870
Cash flows from investing activities:		
Purchases of property and equipment	(3,503)	(3,359)
Additions to software	(1,497)	(1,551)
Acquisiton of businesses, net of cash acquired	(2,385)	(1,690)
Additions to investment and notes receivable	(3,061)	(7,001)
Proceeds from notes receivable repayments	3,680	-
Net cash used in investing activities	(6,766)	(13,601)
Cash flows from financing activities:		
Proceeds from issuance of Class A Common Stock	392	-
Purchase of Treasury Stock	-	(10)
Proceeds from sale and exercise of stock options	2,908	512
Payments of long-term debt	(934)	(30)
Payments on capital lease obligations	(50)	(250)
Net cash provided by financing activities	2,316	222
Effect of exchange rate fluctuations on cash	(39)	(126)
Increase in cash and cash equivalents	6,607	(6,635)
Cash and cash equivalents, beginning of period	31,546	35,512
Cash and cash equivalents, end of period	$ 38,153	$ 28,877

See notes to condensed consolidated financial statements.

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

1. Consolidated Financial Statements

The condensed consolidated financial statements at March 31, 1997 and for the three and six months ended March 31, 1997 and 1996 are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1996. The results of operations for the three and six months ended March 31, 1997 are not necessarily indicative of the results for the entire fiscal year ending September 30, 1997.

The condensed consolidated financial statements include all domestic and foreign subsidiaries which are more than 50% owned and controlled. Investments in companies less than 20% owned are carried at cost.

2. Net Income Per Common and Equivalent Share

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

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

3. Stock Split

On June 7, 1996, the Company's Board of Directors authorized a two-for-one stock split effected in the form of a 100% stock dividend to be distributed on July 1, 1996 to shareholders of record on June 17, 1996. All references in the condensed consolidated financial statements to number of shares and per share amounts have been restated to retroactively reflect the stock split.

4. Acquisition

On October 8, 1996, the Company completed the acquisition of Open Systems Solutions, Inc. (OSSI). Stockholders of OSSI received 209,993 shares of TSA Class A Common Stock in exchange for 100% of OSSI's common stock. The stock exchange was accounted for as a pooling of interests. OSSI's results of operations prior to the acquisition were not material.

5. Investment and Notes Receivable

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

In March 1997, the Company revised the terms of the line of credit and purchase option agreement it has with U.S. Processing, Inc. (USPI). Under the terms of the revised agreement, the Company received $3.6 million as repayment of advances made under the previous line of credit. In addition, the Company converted $1.0 million of prior advances under the line of credit into a 19.9% ownership interest in USPI. The revised line of credit provides USPI with the ability to borrow $4.5 million from the Company. As of March 31, 1997, there were no borrowings under the revised line of credit.

6. Subsequent Event

On April 17, 1997, the Company announced an agreement to purchase Regency Voice Systems, Inc. and related entities (RVS). RVS develops, markets and supports financial software products and related services including interactive voice response and PC-banking products for financial institutions. Under the terms of the agreement, owners of RVS will receive 1,615,383 shares of TSA Class A Common Stock in exchange for 100% of RVS's outstanding securities. The exchange will be accounted for as a pooling of interests. The transaction is expected to close on or about May 13, 1997.

Results of Operations

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

	Three Months Ended March 31,				Six Months Ended March 31,			
	1997		1996		1997		1996	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenues:								
Software license fees	$ 29,200	57.1%	$ 19,018	50.5%	$ 54,451	55.1%	$ 36,235	49.5%
Maintenance fees	10,009	19.6	8,412	22.3	19,970	20.2	16,821	23.0
Services	11,148	21.8	9,169	24.3	23,025	23.3	17,787	24.3
Hardware, net	784	1.5	1,063	2.8	1,337	1.4	2,302	3.1
Total revenues	51,141	100.0	37,662	100.0	98,783	100.0	73,145	100.0
Expenses:								
Cost of software license fees:								
Software costs	6,213	12.1	4,871	12.9	11,610	11.8	8,776	12.0
Amortization of purchased software	0	0.0	785	2.1	801	0.8	1,573	2.2
Cost of maintenance and services	12,019	23.5	9,437	25.1	24,492	24.8	18,208	24.9
Research and development	4,475	8.8	3,788	10.1	8,430	8.5	7,325	10.0
Selling and marketing	11,523	22.5	7,864	20.9	21,805	22.1	16,268	22.2
General and administrative:								
General and administrative costs	8,205	16.0	6,079	16.1	15,871	16.1	11,774	16.1
Amortization of goodwill and purchased intangibles	237	0.5	145	0.4	454	0.5	295	0.4
Total expenses	42,672	83.4	32,969	87.5	83,463	84.5	64,219	87.8
Operating income	8,469	16.6	4,693	12.5	15,320	15.5	8,926	12.2
Other income (expense):								
Interest income	488	1.0	568	1.5	915	0.9	1,136	1.6
Interest expense	(24)	0.0	(51)	(0.1)	(82)	(0.1)	(81)	(0.1)
Other	(227)	(0.4)	(84)	(0.2)	(544)	(0.6)	(128)	(0.2)
Total other	237	0.5	433	1.1	289	0.3	927	1.3
Income before income taxes	8,706	17.0	5,126	13.6	15,609	15.8	9,853	13.5
Provision for income taxes	(3,625)	(7.1)	(2,095)	(5.6)	(6,723)	(6.8)	(3,893)	(5.3)
Net income	$ 5,081	9.9%	$ 3,031	8.0%	$ 8,886	9.0%	$ 5,960	8.1%

Results of Operations (continued)

Revenues
Total revenues for the second quarter of fiscal 1997 increased 35.8% or $13.5 million over the comparable period in fiscal 1996. Of this increase, $10.2 million of the growth resulted from a 53.5% increase in software license fee revenue, $2.0 million from a 21.6% increase in services revenue and $1.6 million from a 19.0% increase in maintenance fee revenue.

Total revenues for the first half of fiscal 1997 increased 35.1% or $25.6 million over the comparable period in fiscal 1996. Of this increase, $18.2 million of the growth resulted from a 50.3% increase in software license fee revenue, $5.2 million from a 29.4% increase in services revenue and $3.1 million from a 18.7% increase in maintenance fee revenue.

The growth in software license fee revenue is the result of increased demand for the Company's BASE24 products and continued growth of the installed base of customers paying monthly license fee (MLF) revenue. Contributing to the strong demand for the Company's products is the continued world-wide growth of electronic payment transaction volume and the growing complexity of electronic payment systems. MLF revenue was $7.5 million in the second quarter of fiscal 1997 compared to $5.0 million in the second quarter of fiscal 1996. MLF revenue was $14.3 million in the first half of fiscal 1997 compared to $9.5 million in the first half of fiscal 1996.

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

The increase in maintenance fee revenue for the second quarter and first half of fiscal 1997 is a result of the continued growth of the installed base of the Company's BASE24 products.

Expenses
Total operating expenses for the second quarter of fiscal 1997 increased 29.4% or $9.7 million over the comparable period in fiscal 1996. Total operating expenses for the first half of fiscal 1997 increased 30.0% or $19.2 million over the comparable period in fiscal 1996. The primary reason for the overall increase in operating expenses is the increase in staff required to support the increased demand for the Company's products and services. Total staff (including both employees and independent contractors) increased from 1,120 at March 31, 1996 to 1,452 at March 31, 1997.

The Company's operating margin for the second quarter of fiscal 1997 was 16.6% as compared to 12.5% for the comparable period in fiscal 1996. Operating margin for the first half of fiscal 1997 was 15.5% as compared to 12.2% for the first half of fiscal 1996. These improvements are primarily due to the impact of the growth in the Company's recurring revenues (MLF's, maintenance and facilities management fees) and the conclusion in December 1996 of the software amortization associated with the acquisition of Applied Communications, Inc. (ACI) and Applied Communications Inc. Limited (ACIL) in December 1993.

The Company's gross margin (total revenues minus cost of software and cost of maintenance and services) for the second quarter of fiscal 1997 was 64.3% as compared to 59.9% for the comparable period in fiscal 1996. The gross margin for the first half of fiscal 1997 was 62.6% as compared to 61.0% for the first half of fiscal 1996. The improvements are partly due to the conclusion of the software amortization associated with the acquisitions of ACI and ACIL.

EBITDA
The Company's earnings before interest expense, income taxes, depreciation and amortization (EBITDA) increased from $7.1 million in the second quarter of fiscal 1996 to $10.7 million for the second quarter of fiscal 1997. EBITDA was $20.4 million for the first half of fiscal 1997 as compared to $13.6 million for the first half of fiscal 1996. The increase in EBITDA can be attributed to the continued growth in both recurring and non-recurring revenues more than offsetting the growth in operating expenses. EBITDA is not intended to represent cash flows for the periods.

Income Taxes
The effective tax rate for the second quarter of fiscal 1997 was 41.6% as compared to 40.9% for the second quarter of fiscal 1996. The effective tax rate for the first half of fiscal 1997 was 43.1% as compared to 39.5% for the first half of fiscal 1996. The increase in the effective tax rate is principally the result of deferred tax assets which were recognized in the first half of fiscal 1996 which reduced the effective tax rate for that period with no corresponding recognition of deferred tax assets in the first half of fiscal 1997.

As of March 31, 1997, the Company has deferred tax assets of $9.6 million and deferred tax liabilities of $0.6 million. Each quarter, the Company evaluates its historical operating results as well as its projections for the next 24 months to determine the realizability of the deferred tax assets. This analysis indicated that $1.7 million of the deferred tax assets were more likely than not to be realized. Accordingly, the Company has recorded a valuation allowance of $7.9 million as of March 31, 1997.

Backlog
As of March 31, 1997 and 1996, the Company had non-recurring revenue backlog of $24.4 million and $21.3 million in software license fees, respectively, and $15.6 million and $10.9 million in services, respectively. The Company includes in its non-recurring revenue backlog all fees specified in contracts which have been executed by the Company to the extent that the Company contemplates

recognition of the related revenue within one year. There can be no assurance that the contracts included in non-recurring revenue backlog will actually generate the specified revenues or that the actual revenues will be generated within the one year period.

As of March 31, 1997 and 1996, the Company had recurring revenue backlog of $78.8 million and $57.7 million, respectively. The Company defines recurring revenue backlog to be all monthly license fees, maintenance fees and facilities management fees specified in contracts which have been executed by the Company and its customers to the extent that the Company contemplates recognition of the related revenue within one year. There can be no assurance, however, that contracts included in recurring revenue backlog will actually generate the specified revenues.

Liquidity and Capital Resources

As of March 31, 1997, the Company had working capital of $53.2 million which includes cash and cash equivalents of $38.2 million. The Company has a $10 million bank line of credit of which there are no borrowings outstanding. The bank line of credit expires in June 1997.

During the six months ended March 31, 1997, the Company's cash flow from operations amounted to $11.1 million and cash used in investing activities amounted to $6.8 million. Of the $6.8 million of cash used in investing activities, $3.1 million consisted of advances to Insession ($1.0 million) and USPI ($2.1 million) under promissory notes. USPI repaid advances of $3.6 million during the second quarter of fiscal 1997.

In the normal course of business, the Company evaluates potential acquisitions of complementary businesses, products or technologies. In October 1996, the Company acquired 100% of OSSI in exchange for 209,993 shares of the Company's Class A Common Stock. In May 1997, the Company anticipates finalizing the acquisition of Regency Voice Systems, Inc. and related entities (See Footnote 6 to the Condensed Consolidated Financial Statements).

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

TRANSACTION SYSTEMS ARCHITECTS, INC.
PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The Registrant's annual meeting of shareholders was held on February 25, 1997. Each matter voted upon at such meeting and the number of shares cast for, against or withheld, and abstained are as follows:

1. Election of Directors

	For	Withheld
William E. Fisher	20,555,191	49,571
David C. Russell	20,532,402	72,360
Promod Haque	20,559,180	45,582
Frederick L. Bryant	20,559,180	45,582
Charles E. Noell, III	20,559,180	45,582
Jim D. Kever	20,557,624	47,138
Larry G. Fendley	20,558,124	46,638

2. Approval of 1997 Management Stock Option Plan

For: 20,080,885 Against:397,000 Abstain:46,527 Broker Non-vote:80,350

3. Ratification of Appointment of Arthur Andersen LLP as Independent Auditors for 1997

For: 20,570,725 Against: 23,253 Abstain: 10,784 Broker Non-vote: 0

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.24 Transaction Systems Architects, Inc. 1997 Management Stock Option Plan

27.00 Financial Data Schedule

(b) Reports on Form 8-K

None

SIGNATURES

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

Dated: May 12, 1997

TRANSACTION SYSTEMS ARCHITECTS, INC
(Registrant)

/s/Dwight G. Hanson

Dwight G. Hanson
Controller
(Principal Accounting Officer)

TRANSACTION SYSTEMS ARCHITECTS, INC.

INDEX TO EXHIBITS

Exhibit Number	Description
10.24	Transaction Systems Architects, Inc. 1997 Management Stock Option Plan
27.00	Financial Data Schedule

TRANSACTION SYSTEMS ARCHITECTS, INC.

1997 Management Stock Option Plan

Section 1. Purpose. The purpose of the Transaction Systems Architects, Inc. 1997 Management Stock Option Plan (the "Plan") is to provide long term incentives and rewards to Management of Transaction Systems Architects, Inc. (the "Company") and its Subsidiaries, by providing an opportunity to selected Management Employees to purchase Common Stock of the Company. By encouraging stock ownership, the Company seeks to attract and retain Management Employees and to encourage their best efforts to work at the success of the Company.

Section 2. Definitions. For purposes of this Plan, the following terms used herein shall have the following meanings, unless a different meaning is clearly required by the context.

2.1. "Board of Directors" shall mean the Board of Directors of the Company.

2.2. "Code" shall mean the United States Internal Revenue Code of 1986, as amended.

2.3. "Committee" shall mean the committee of the Board of Directors referred to in Section 5 hereof.

2.4. "Common Stock" shall mean the Class A Common Stock of the Company.

2.5. "Management Employee" shall mean any person in Management, who, at the time an Option is granted to such person hereunder, is actively and customarily employed for 30 hours or more per week by the Company or any Subsidiary of the Company including, without limitation, employee-officers.

2.6. "Fair Market Value" shall mean the closing bid price on the date in question, as such price is reported by the National Association of Securities Dealers on the NASDAQ National Market or any successor system for a share of Common Stock.

2.7. "Option" shall mean an option granted to a Participant pursuant to the Plan which is intended to be, and qualifies as, a "non-qualified stock option" as described in Treasury Regulation Section 1.83-7 and which shall not constitute nor be treated as an "incentive stock option" as defined in Section 422A(b) of the Code.

2.8. "Participant" shall mean any Management Employee to whom an Option is granted under this Plan.

2.9. "Subsidiary of the Company" shall have the meaning set forth in Section 424(f) of the Code.

Section 3. Eligibility. Options may be granted to any Management Employee. The Committee shall have the sole authority to select the Management Employees to whom Options are to be granted hereunder, and to determine whether a Management Employee is to be granted an Option. No Management Employee shall have any right to participate in the Plan.

Section 4. Common Stock Subject to the Plan.

4.1. The total number of shares of Common Stock for which Options may be granted under this Plan shall not exceed in the aggregate one-million fifty-thousand (1,050,000) shares of Common Stock.

4.2. The shares of Common Stock that may be subject to Options granted under this Plan may be either authorized and unissued shares or shares reacquired at any time and now or hereafter held as treasury stock as the Committee may determine. In the event that any outstanding Option expires or is terminated for any reason, the shares allocable to the unexercised portion of such Option may again be subject to an Option granted under this Plan. If any shares of Common Stock acquired pursuant to the exercise of an Option shall have been repurchased by the Company, then such shares shall again become available for issuance pursuant to the Plan.

Section 5. Administration of the Plan.

5.1 The Plan shall be administered by the Compensation Committee of the Board of Directors, or such other committee of the Board as may be directed by the Board (the "Committee") consisting of no less than two persons. All members of the committee shall be "disinterested persons" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934. The Committee shall be appointed from time to time by, and shall serve at the pleasure of, the Board of Directors.

5.2. The Committee shall have the sole authority and discretion to grant Options under this Plan and, subject to the limitations set forth in Section 6 hereof, to determine the terms and conditions of all Options, including, without limitation, (i) selecting the Participants who are to be granted Options hereunder; (ii) establishing the number of shares of Common Stock that may be issued under each Option; (iii) determining the time and the conditions subject to which Options may be exercised in whole or in part; (iv) determining the form of the consideration that may be used to purchase shares of Common Stock upon exercise of any Option (including the circumstances under which the Company's issued and outstanding shares of Common Stock may be used by a Participant to exercise an Option); (v) imposing restrictions and/or conditions with respect to shares of Common Stock acquired upon exercise of an Option; (vi) determining the circumstances under which shares of Common Stock acquired upon exercise of any Option may be subject to repurchase by the Company; (vii) determining the circumstances and conditions subject to which shares acquired upon exercise of an Option may be sold or otherwise transferred, including without limitation, the circumstances and conditions subject to which a proposed sale of shares of Common Stock acquired upon exercise of an Option may be subject to the Company's right of first refusal (as well as the terms and conditions of any such right of first refusal); (viii) establishing a vesting provision for any Option relating to the time (or the circumstance) when the Option may be exercised by a Participant, including vesting provisions which may be contingent upon the Company meeting specified financial goals; (ix) requiring as a minimum vesting that no Option may be exercised during the first year from the date it is granted, that after one year from the date an Option is granted, it may be exercised as to not more than 25 percent of the shares optioned, and after the expiration of the second, third and fourth years from the date the Option is granted, it may be exercised as to no more than an additional 25 percent of such shares plus any shares as to which the Option might theretofore have been exercised but shall not have been exercised; (x) accelerating the time when outstanding Options may be exercised; (xi) determining the circumstances under which the purchase price of the Options may be refunded to the Participant in event of death, disability, or involuntary termination; and (xii) establishing any other terms, restrictions and/or conditions applicable to any Option not inconsistent with the provisions of this Plan.

5.3. The Committee shall be authorized to interpret the Plan and may, from time to time, adopt such rules and regulations, not inconsistent with the provisions of the Plan, as it may deem advisable to carry out the purpose of this Plan.

5.4. The interpretation and construction by the Committee of any provision of the Plan, any Option granted hereunder or any agreement evidencing any such Option shall be final and conclusive upon all parties.

5.5 Only members of the Committee shall vote on any matter affecting the administration of the Plan or the granting of Options under the Plan.

5.6. All expenses and liabilities incurred by the Committee in the administration of the Plan shall be borne by the Company. The Committee may employ attorneys, consultants, accountants or other persons in connection with the administration of the Plan. The Company, and its officers and directors, shall be entitled to rely upon the advice, opinions or valuations of any such persons. No member of the Board of Directors (or the Committee) shall be liable for any action, determination or interpretation taken or made in good faith with respect to the Plan or any Option granted hereunder.

Section 6. Terms and Conditions of Options.

6.1. The terms and conditions of each Option granted under the Plan shall be specified by the Committee, in its sole discretion, and shall be set forth in a written option agreement between the Company and the Participant in such form as the Committee shall approve. The terms and conditions of each Option will be such that each Option issued hereunder shall not constitute nor be treated as an "incentive stock option" as defined in Section 422A of the Code and will be a "non-qualified stock option" for United States Federal income tax purposes. The terms and conditions of any Option granted hereunder need not be identical to those of any other Option granted hereunder.

The terms and conditions of each Option agreement shall include the following:

(a) The Option exercise price shall be fixed by the Committee and will either be equal to or more than 100% of the Fair Market Value of the shares of Common Stock subject to the Option on the date such Option is granted. For any Options granted to a Participant prior to approval of this Plan by the Company's Stockholders, the Option exercise price will be equal to the Fair Market Value on the day of Stockholder approval of this Plan.

(b) The Option purchase price which a Participant will be required to pay to the Company for such Option will be U.S. $3.00 per share and the option purchase price will be payable by the Participant to the Company within fourteen (14) days after the grant of such Option. For any Options granted to a Participant prior to approval of this Plan by the Company's Stockholders, the Option purchase price will be payable by the Participant to the Company within fourteen (14) days after the day of Stockholder approval of this Plan.

(c) The Option vesting period shall be at a minimum a total of four years from the date of grant of such Options. After one year from the date an Option is granted, it may be exercised as to not more than 25 percent of the shares optioned, and after the expiration of the second, third, and fourth years from the date the Option is granted, it may be exercised as to no more than an additional 25 percent of such shares optioned plus any shares as to which the Option might theretofore have been exercised but shall not have been exercised.

(d) The Committee shall fix the exercise term of all Options granted pursuant to the Plan provided, however, that while a Participant is employed by the Company such term shall in no event be less than five years from the date on which such Option is granted.

(e) Options shall not be transferable otherwise than by will or the laws of descent and distribution, and during a Participant's lifetime an Option shall be exercisable only by the Participant.

(f) In the event that the Company is required to withhold any U.S. Federal, state, local or foreign taxes in respect of any compensation income realized by the Participant in respect of an Option granted hereunder or in respect of any shares of Common Stock acquired upon exercise of an Option, the Company shall deduct from any payments of any kind otherwise due to such Participant the aggregate amount of such Federal, state, local or foreign taxes required to be so withheld or, if such payments are insufficient to satisfy such Federal, state, local or foreign taxes, or if no such payments are due or to become due to such Participant, then, such Participant will be required to pay to the Company, or make other arrangements satisfactory to the Company regarding payment to the Company of, the aggregate amount of any such taxes. All matters with respect to the total amount of taxes to be withheld in respect of any such compensation income shall be determined by the Committee in its sole discretion.

(g) In the sole discretion of the Committee the terms and conditions of any Option may (but need not) include any of the following provisions:

(i) In the event a Participant shall cease to be a Management Employee of the Company or Subsidiary of the Company for any reason other than as a result of his death or "disability" (within the meaning of Section 22(e)(3) of the Code), the vested and unexercised portion of any Option held by such Participant at that time may only be exercised within one month after the date on which the Participant ceased to be so employed, and only to the extent that the Participant could have otherwise exercised such Option as of the date on which he ceased to be so employed.

(ii) In the event a Participant shall cease to be a Management Employee of the Company or Subsidiary of the Company by reason of his "disability" (within the meaning of Section 22(e)(3) of the Code), the vested and unexercised portion of any Option held by such Participant at that time may only be exercised within one year after the date on which the Participant ceased to be so employed, and only to the extent that the Participant could have otherwise exercised such Option if it had been completely exercisable.

(iii) In the event a Participant shall die while employed by the Company or Subsidiary of the Company, the vested and unexercised portion of any Option held by such Participant at the time of their death may only be exercised within one year after the date of such Participant's death, and only to the extent that the Participant could have otherwise exercised such Option if it had been completely exercisable. In such event, such Option may be exercised by the executor or administrator of the Participant's estate or by any person or persons who shall have acquired the Option directly from the Participant by bequest or inheritance.

Section 7. Adjustments.

7.1 In the event that after the adoption of the Plan by the Board of Directors, the outstanding shares of the Company's Common Stock shall be increased or decreased or changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation through reorganization, merger or consolidation, recapitalization, reclassification, stock split, split-up, combination or exchange of shares or declaration of any dividends payable in Common Stock, the Board of Directors shall appropriately adjust (i) the number of shares of Common Stock (and the option price per share) subject to the unexercised portion of any outstanding Option (to the nearest possible full share), and (ii) the number of shares of Common Stock for which Options may be granted under this Plan, as set forth in Section 4.1 hereof, and such adjustments shall be effective and binding for all purposes of this Plan.

7.2 Notwithstanding the foregoing, in the event of (i) any offer to holders of the Company's Common Stock generally relating to the acquisition of their shares, including, without limitation, through purchase, merger or otherwise or (ii) any transaction generally relating to the acquisition of substantially all of the assets or business of the Company, the Committee may make such adjustment as it deems equitable in respect of outstanding Options including, without limitation, the revision or cancellation of any outstanding Options including providing for full vesting for all outstanding options. Any such determination by the Committee shall be effective and binding for all purposes of this Plan.

Section 8. Effect of the Plan on Employment Relationship. Neither this Plan nor any Option granted hereunder to a Participant shall be construed as conferring upon such Participant any right to continue in the employ of the Company or the service of the Company or any Subsidiary of the Company as the case may be, or limit in any respect the right of the Company or any Subsidiary of the Company to terminate such Participant's employment or other relationship with the Company or any Subsidiary of the Company, as the case may be, at any time.

Section 9. Amendment of the Plan. The Board of Directors may amend the Plan from time to time as it deems desirable; provided, however, that, without the approval of the holders of a majority of the outstanding stock of the Company present or represented and entitled to vote thereon at a meeting, the Board of Directors may not amend the Plan (i) to increase materially the benefits accruing to participants under the Plan, (ii) to increase materially (except for increases due to adjustments in accordance with Section 7 hereof) the aggregate number of shares of Common Stock for which Options may be granted hereunder or (iii) to modify materially the requirements as to eligibility for participation in the Plan.

Section 10. Termination of the Plan. The Board of Directors may terminate the Plan at any time. Unless the Plan shall theretofore have been terminated by the Board of Directors, the Plan shall terminate ten years after the date of its initial approval by the stockholders of the Company. No Option may be granted hereunder after termination of the Plan. The termination or amendment of the Plan shall not alter or impair any rights or obligations under any Option theretofore granted under the Plan.

Section 11. Effective Date of the Plan. This Plan shall be effective as of January 1, 1997.

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