

TRANSACTION SYSTEMS ARCHITECTS INC  
Form 10-Q/A  
January 14, 2003

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q/A**

**Amendment No. 1**

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

For the quarterly period ended June 30, 2002

Commission File Number 0-25346

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**TRANSACTION SYSTEMS ARCHITECTS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**47-0772104**

(I.R.S. Employer  
Identification No.)

**224 South 108th Avenue  
Omaha, Nebraska 68154**

(Address of principal executive offices,  
including area code)

**(402) 334-5101**

(Registrant's telephone number,  
including zip code)

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

Yes  No

The number of shares of the issuer's Class A Common Stock, par value \$.005 per share, outstanding as of August 12, 2002 was 35,410,720 (excluding 1,476,145 shares held as Treasury Stock, and including 426,434 Exchangeable Shares of TSA Exchangeco Limited which can be exchanged on a one-for-one basis for shares of the issuer's Class A Common Stock and 12,166 options to purchase shares of the issuer's Class A Common Stock at an exercise price of one cent per share).

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## PART I FINANCIAL INFORMATION

### Other Information

On August 14, 2002, the Company announced that it was reviewing the accounting treatment for several transactions involving one of the Company's customers that originated in prior fiscal years. After the initial review of these transactions, the Company determined a restatement of previously issued financial results was required as a result of these transactions.

In the course of the Company's review of its fiscal 2001 and 2000 consolidated financial statements, the Company identified transactions for which accounting adjustments were necessary, which resulted in restatements of the Company's consolidated financial statements for fiscal 2001 and 2000, as well as restatements of previously announced quarterly results for the first three quarters of fiscal 2002 and each quarter during fiscal 2001 and 2000. These accounting adjustments, except as described in Note 3 to Item 1 Financial Statements, are in addition to the transactions initially identified and considered at the time of the August 14, 2002 announcement.

In view of the determination to restate prior financial statements, the Company also announced on August 14, 2002 that its Chief Executive Officer and Chief Financial Officer would not make the certifications required by Section 906 of the Sarbanes-Oxley Act of 2002 until the completion of the audit of its prior financial statements. The Company noted that the Chief Executive Officer and the Chief Financial Officer were expected to make such certifications promptly upon completion of the audit. The certifications required pursuant to the Sarbanes-Oxley Act of 2002 are filed as part of this Form 10-Q/A.

The Company's consolidated financial statements for the three and nine-month periods ended June 30, 2002 and 2001 have been restated. Note 3 to Item 1 Financial Statements provides information relating to the restatement. Additionally, this Form 10-Q/A removes the disclosure from the original filing that a review had not been completed. In order to preserve the nature and character of the disclosures set forth in the Form 10-Q as originally filed, this Form 10-Q/A speaks as of the date of the original filing, and the Company has not updated the disclosures other than as they relate to or are affected by the restatement to present information as of a later date. While this Form 10-Q/A primarily relates to the historical periods covered, events may have taken place since the original filing that might have been reflected in this Form 10-Q/A if they had taken place prior to the original filing.

### Item 1. Financial Statements.

#### Index to condensed consolidated financial statements filed as part of this Form 10-Q/A:

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**TRANSACTION SYSTEMS ARCHITECTS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(unaudited and in thousands, except share amounts)

|   | <u>June 30,<br/>2002</u> | <u>September 30,<br/>2001</u> |
|---|--------------------------|-------------------------------|
|   | (Restated)               | (Restated)                    |
| <b>ASSETS</b>   |                          |                               |
| Current assets:   |                          |                               |
| Cash and cash equivalents   | \$ 59,123                | \$ 32,004                     |
| Marketable securities   | 5,212                    | 4,765                         |
| Billed receivables, net of allowances of \$2,959 and \$4,180, respectively                  | 55,698                   | 55,690                        |
| Accrued receivables   | 12,911                   | 23,414                        |
| Deferred income taxes, net  | 25,744                   | 10,589                        |
| Other   | 5,974                    | 9,420                         |
|   | <u>164,662</u>           | <u>135,882</u>                |
| Total current assets  | 164,662                  | 135,882                       |
| Property and equipment, net   | 12,444                   | 14,474                        |
| Software, net   | 6,303                    | 11,778                        |
| Goodwill, net   | 57,980                   | 57,371                        |
| Deferred income taxes, net  | 22,502                   | 47,097                        |
| Other   | 3,774                    | 5,801                         |
|   | <u>267,665</u>           | <u>272,403</u>                |
| Total assets  | \$ 267,665               | \$ 272,403                    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                          |                               |
| Current liabilities:  |                          |                               |
| Debt-financing agreements   | \$ 20,114                | \$ 13,104                     |
| Line of credit  |                          | 12,000                        |
| Accounts payable  | 7,656                    | 13,633                        |
| Accrued employee compensation   | 5,171                    | 7,194                         |
| Income taxes payable  | 12,824                   | 2,013                         |
| Accrued liabilities   | 14,491                   | 18,130                        |
| Deferred revenue  | 49,546                   | 47,358                        |
| Other   | 367                      | 504                           |
|   | <u>110,169</u>           | <u>113,936</u>                |
| Total current liabilities   | 110,169                  | 113,936                       |
| Debt-financing arrangements   | 28,435                   | 44,135                        |
| Deferred revenue  | 27,163                   | 28,544                        |
| Other   | 2,402                    | 1,818                         |
|   | <u>168,169</u>           | <u>188,433</u>                |
| Total liabilities   | 168,169                  | 188,433                       |
| Stockholders' equity:   |                          |                               |
| Class A Common Stock, 36,848,429 and 36,687,658 shares issued and outstanding, respectively | 183                      | 183                           |

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|   | June 30,<br>2002  | September 30,<br>2001 |
|---|-------------------|-----------------------|
| Additional paid-in capital                        | 228,168           | 227,126               |
| Retained earnings                                 | (84,984)          | (99,196)              |
| Treasury stock, 1,476,145 shares                  | (35,258)          | (35,258)              |
| Accumulated other comprehensive loss              | (8,613)           | (8,885)               |
| <b>Total stockholders' equity</b>                 | <b>99,496</b>     | <b>83,970</b>         |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 267,665</b> | <b>\$ 272,403</b>     |

See notes to condensed consolidated financial statements.

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**TRANSACTION SYSTEMS ARCHITECTS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited and in thousands, except per share amounts)

|                                  | Three Months Ended June 30, |                 | Nine Months Ended June 30, |                 |
|----------------------------------|-----------------------------|-----------------|----------------------------|-----------------|
|                                  | 2002                        | 2001            | 2002                       | 2001            |
|                                  | (Restated)                  | (Restated)      | (Restated)                 | (Restated)      |
| <b>Revenues:</b>                 |                             |                 |                            |                 |
| Software license fees            | \$ 38,706                   | \$ 34,547       | \$ 119,152                 | \$ 118,619      |
| Maintenance fees                 | 18,175                      | 16,651          | 55,656                     | 49,256          |
| Services                         | 12,060                      | 16,707          | 37,638                     | 48,881          |
| <b>Total revenues</b>            | <b>68,941</b>               | <b>67,905</b>   | <b>212,446</b>             | <b>216,756</b>  |
| <b>Expenses:</b>                 |                             |                 |                            |                 |
| Cost of software license fees    | 6,673                       | 11,002          | 23,838                     | 33,547          |
| Cost of maintenance and services | 14,441                      | 18,606          | 45,885                     | 54,914          |
| Research and development         | 8,711                       | 10,854          | 26,678                     | 32,357          |
| Selling and marketing            | 15,033                      | 19,552          | 45,325                     | 57,802          |
| General and administrative       | 11,528                      | 19,066          | 36,670                     | 46,377          |
| Goodwill amortization            |                             | 4,650           |                            | 10,571          |
| Impairment of goodwill           |                             | 6,252           |                            | 6,252           |
| <b>Total expenses</b>            | <b>56,386</b>               | <b>89,982</b>   | <b>178,396</b>             | <b>241,820</b>  |
| <b>Operating income (loss)</b>   | <b>12,555</b>               | <b>(22,077)</b> | <b>34,050</b>              | <b>(25,064)</b> |

Other income (expense):

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|  | Three Months Ended June 30, |           | Nine Months Ended June 30, |           |
|--|-----------------------------|-----------|----------------------------|-----------|
|  |                             |           |                            |           |
| Interest income                        | 404                         | 342       | 1,044                      | 1,394     |
| Interest expense                       | (1,313)                     | (1,685)   | (4,376)                    | (5,678)   |
| Other                                  | 424                         | (2,808)   | 4,022                      | (17,188)  |
| Total other income (expense)           | (485)                       | (4,151)   | 690                        | (21,472)  |
| Income (loss) before income taxes      | 12,070                      | (26,228)  | 34,740                     | (46,536)  |
| Income tax provision                   | (7,066)                     | (881)     | (20,528)                   | (1,549)   |
| Net income (loss)                      | 5,004                       | (27,109)  | 14,212                     | (48,085)  |
| Earnings (loss) per share information: |                             |           |                            |           |
| Weighted average shares outstanding:   |                             |           |                            |           |
| Basic                                  | 35,355                      | 35,086    | 35,303                     | 33,765    |
| Diluted                                | 35,735                      | 35,086    | 35,576                     | 33,765    |
| Earnings (loss) per share:             |                             |           |                            |           |
| Basic                                  | \$ 0.14                     | \$ (0.77) | \$ 0.40                    | \$ (1.42) |
| Diluted                                | \$ 0.14                     | \$ (0.77) | \$ 0.40                    | \$ (1.42) |

See notes to condensed consolidated financial statements.

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

|   | Nine Months Ended June 30, |             |
|---|----------------------------|-------------|
|   | 2002                       | 2001        |
|   | (Restated)                 | (Restated)  |
| Cash flows from operating activities:   |                            |             |
| Net income (loss)   | \$ 14,212                  | \$ (48,085) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                            |             |
| Depreciation  | 4,932                      | 6,067       |
| Amortization  | 7,918                      | 23,377      |
| Gain on sale of business  | (8,743)                    |             |
| Non cash and other impairments  | 4,775                      | 9,349       |
| Impairments of goodwill and software  |                            | 6,252       |
| Changes in operating assets and liabilities:  |                            |             |
| Billed and accrued receivables, net   | 8,282                      | 7,935       |

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|   | <u>Nine Months Ended June 30,</u> |                   |
|---|-----------------------------------|-------------------|
| Other current and noncurrent assets                 | 2,079                             | 4,908             |
| Accounts payable                                    | (5,919)                           | (4,459)           |
| Deferred revenue                                    | 4,532                             | 8,702             |
| Income taxes  | 17,097                            | (7,432)           |
| Other current and noncurrent liabilities            | (5,502)                           | (4,194)           |
|   | <u>          </u>                 | <u>          </u> |
| Net cash provided by operating activities           | 43,663                            | 2,420             |
|   | <u>          </u>                 | <u>          </u> |
| <b>Cash flows from investing activities:</b>        |                                   |                   |
| Purchases of property and equipment, net            | (3,037)                           | (1,668)           |
| Additions to software                               | (765)                             | (2,465)           |
| Net proceeds from sale of business                  | 5,429                             |                   |
| Acquisition of business, net of cash acquired       |                                   | 1,121             |
| Other, net  | 585                               | (891)             |
|   | <u>          </u>                 | <u>          </u> |
| Net cash provided by (used in) investing activities | 2,212                             | (3,903)           |
|   | <u>          </u>                 | <u>          </u> |
| <b>Cash flows from financing activities:</b>        |                                   |                   |
| Proceeds from issuance of Class A Common Stock      | 910                               | 1,140             |
| Proceeds from exercise of stock options             | 69                                | 223               |
| Net borrowings (repayments) on lines of credit      | (12,000)                          | (2,925)           |
| Proceeds from debt financing arrangements           | 7,600                             | 16,975            |
| Payments on debt financing arrangements             | (16,290)                          | (9,335)           |
| Borrowings of long-term debt                        | 411                               | 365               |
|   | <u>          </u>                 | <u>          </u> |
| Net cash (used in) provided by financing activities | (19,300)                          | 6,443             |
|   | <u>          </u>                 | <u>          </u> |
| Effect of exchange rate fluctuations on cash        | 544                               | (247)             |
|   | <u>          </u>                 | <u>          </u> |
| Net increase in cash and cash equivalents           | 27,119                            | 4,713             |
| Cash and cash equivalents, beginning of period      | 32,004                            | 23,132            |
|   | <u>          </u>                 | <u>          </u> |
| Cash and cash equivalents, end of period            | \$ 59,123                         | \$ 27,845         |
|   | <u>          </u>                 | <u>          </u> |

See notes to condensed consolidated financial statements.

**TRANSACTION SYSTEMS ARCHITECTS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Consolidated Financial Statements**

Transaction Systems Architects, Inc., a Delaware corporation, and its subsidiaries (collectively referred to as "TSA" or the "Company"), develops, markets, installs and supports a broad line of software products and services primarily focused on facilitating electronic payments and

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

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The condensed consolidated financial statements at June 30, 2002, and for the three and nine months ended June 30, 2002 and 2001, 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, 2001. The results of operations for the three and nine months ended June 30, 2002 are not necessarily indicative of the results that may be achieved for the entire fiscal year ending September 30, 2002. See discussion of restatement of condensed consolidated financial statements at Note 3.

### 2. Summary of Significant Accounting Policies

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

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

#### *Revenue Recognition, Accrued Receivables and Deferred Revenue*

*Software License Fees.* The Company recognizes software license fee revenue in accordance with American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, "Software Revenue Recognition," SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions," and Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements." For software license arrangements for which services rendered are not considered essential to the functionality of the software, the Company recognizes revenue upon delivery, provided (1) there is persuasive evidence of an arrangement, (2) collection of the fee is considered probable and (3) the fee is fixed or determinable. In most arrangements, vendor-specific objective evidence ("VSOE") of fair value does

not exist for the license element; therefore, the Company uses the residual method under SOP 98-9 to determine the amount of revenue to be allocated to the license element. Under SOP 98-9, the fair value of all undelivered elements, such as postcontract customer support (maintenance or "PCS") or other products or services, is deferred and subsequently recognized as the products are delivered or the services are performed, with the residual difference between the total arrangement fee and revenues allocated to undelivered elements being allocated to the delivered element.

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

are fixed and determinable.

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

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

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

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

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product, and in certain circumstances, modifies or enhances the product, revenues are recorded on a gross basis. These include arrangements in which the Company takes title to the products and is responsible for providing the product or service.

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

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

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

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

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

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

*Cash and Cash Equivalents*



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The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

### *Marketable Securities*

The Company accounts for its investments in marketable equity securities in accordance with Statement of Financial Accounting Standard ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company's portfolio consists of securities classified as available-for-sale, which are recorded at fair market values based on quoted market prices. Net unrealized gains and losses on marketable securities (excluding other than temporary losses) are reflected in the consolidated financial statements as a component of accumulated other comprehensive

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income. Net realized gains and losses are computed on the basis of average cost and are recognized when realized.

Marketable securities are considered to be impaired when a decline in fair value below cost basis is determined to be other than temporary. The Company continually monitors its investment holdings for evidence of impairment by evaluating, among other factors, the length of time and extent to which the fair value is less than cost, the financial condition of the business and its expected cash flows, anticipated changes in technology, and other industry and market trends. Once a decline in fair value is determined to be other than temporary, a write-down is recorded and a new cost basis in the security is established.

### *Concentrations of Credit Risk*

In the normal course of business, the Company is exposed to credit risk resulting from the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. The Company regularly monitors credit risk exposures. Potential concentration of credit risk in the Company's receivables with respect to the banking, other financial services and telecommunications industries, as well as with retailers, processors and networks is mitigated by the Company's credit evaluation procedures and geographical dispersion of sales transactions. The Company generally does not require collateral or other security to support accounts receivable.

### *Property and Equipment*

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

### *Goodwill and Other Intangibles*

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," which the Company adopted effective October 1, 2001, goodwill is no longer amortized, but instead is assessed for impairment at least annually. During this assessment, management relies on a number of factors, including operating results, business plans and anticipated future cash flows. Prior to fiscal 2002, goodwill was amortized using the straight-line method over estimated useful lives of five to ten years. Other intangible assets are amortized over estimated useful lives of three to ten years.

### *Impairment of Long-Lived Assets*

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. Prior to the adoption of SFAS No. 142 on October 1, 2001, goodwill was also subject to similar impairment testing requirements under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." An impairment loss is recorded if the sum of the future cash flows expected to result from the use of the asset (undiscounted and without interest charges) is less than the carrying amount of the asset. The amount of the impairment charge is measured based upon the fair value of the asset.

### *Software*

Software consists of internally-developed software and purchased software. In accordance with SFAS No. 86, "Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise

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Marketed," the Company capitalizes costs related to certain internally-developed software when the resulting products reach technological feasibility. The Company determines technological feasibility when it has a detailed program design of a computer software product that takes product function, feature, and technical requirements to their most detailed, logical form and is ready for coding. Purchased software consists of software to be marketed externally that was acquired primarily as the result of a business acquisition ("acquired software") and costs of computer software obtained for internal use that were capitalized in accordance with SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("internal-use software").

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

#### *Debt Financing Agreements*

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

#### *Stock-Based Compensation Plans*

The Company accounts for its stock-based compensation plans under the intrinsic value method in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" and follows the disclosure provisions of SFAS No. 123 "Accounting for Stock-Based Compensation."

#### *Translation of Foreign Currencies*

The Company's foreign subsidiaries use the local currency of the countries in which they are located as their functional currency. Their assets and liabilities are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average exchange rates during the period. Translation gains and losses (net of tax), if material, are reflected in the consolidated financial statements as a component of accumulated other comprehensive income. Transaction gains and losses related to intercompany accounts are not material and are included in the determination of net income.

#### *Income Taxes*

The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

#### *Recent Accounting Pronouncements*

In October 2001, the FASB released SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which excludes from the definition of long-lived assets goodwill and other intangibles that are not amortized in accordance with SFAS No. 142. SFAS No. 144 requires long-lived assets disposed of by sale to be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 also expands the reporting of discontinued operations to include components of an entity that have been or will be disposed of rather than limiting such discontinuance to a segment of a business. SFAS No. 144 is effective for the Company's fiscal year ending September 30, 2003. The Company does not anticipate any adjustment to the book value of its long-lived assets as a result of adopting the provisions of SFAS No. 144.

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In June 2002, the FASB released SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting and reporting for costs associated with exit or disposal activities, and nullifies EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to exit an Activity." SFAS No. 146 addresses involuntary one-time employee termination benefits, costs to terminate a contract that is not a capital lease, and other associated exit costs. Existing accounting guidelines require companies to recognize a liability when management commits itself or announces plans to exit or dispose of an activity. SFAS No. 146 will prohibit companies from recognizing an exit or disposal liability until the liability has been incurred and can be measured at fair value. The Company is required to be in conformity with the provisions of SFAS No. 146 for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 is not expected to have a material effect on the Company's financial position or results of operations.

### 3. Restatements of Condensed Consolidated Financial Results

On August 14, 2002, the Company announced that it was reviewing the accounting treatment for several transactions involving one of the Company's customers that originated in prior fiscal years. After the initial review of these transactions, the Company determined a restatement of previously issued financial results was required as a result of these transactions.

In the course of the Company's review of its fiscal 2001 and 2000 consolidated financial statements the Company identified transactions for which accounting adjustments were necessary which resulted in restatements of the Company's consolidated financial statements for fiscal 2001 and 2000, as well as restatements of previously announced quarterly results for the first three quarters of fiscal 2002 and each quarter during fiscal 2001 and 2000. These accounting adjustments are in addition to the transactions initially identified and considered at the time of the April 14, 2002 announcement.

The following is a description of each of the restatement adjustment categories. The dollar effect of each of these adjustments on each fiscal period is described below under the heading *Presentation of Restated Consolidated Financial Information*.

#### *Revenue Recognition*

*Fixed or Determinable.* In fiscal 1999, the Company adopted SOP 97-2, which requires that a software vendor's fee be fixed or determinable before it can recognize the license fee revenue upon shipment of the software. SOP 97-2 states that if payment of a significant portion of the software license fee is not due until after expiration of the license or more than twelve months after delivery, the license fee should be presumed not to be fixed or determinable. However, SOP 97-2 provides that

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the software vendor can overcome the presumption that the software license fees are not fixed or determinable if the vendor has a standard business practice of using long-term or installment contracts and has a history of successfully collecting the software license fees under the original payment terms of the software license arrangement without making concessions.

Previously, the Company concluded that for certain BASE24 and ICE software arrangements where the customer is contractually committed to make license payments that extend beyond twelve months, the fixed or determinable presumption had been overcome and software license fee revenue should be recognized upon delivery of the software, assuming that all other revenue recognition criteria had been met. Software license fee revenues recognized under these arrangements were referred to in the Company's previous filings with the SEC as "Recognized-Up-Front MLFs ("RUFs")." Software license fee revenues previously recognized as RUFs totaled approximately \$9.6 million and \$18.3 million during the nine months ended June 30, 2002 and 2001, respectively.

Subsequently, it was determined that upon adoption of SOP 97-2, the Company lacked a history of successfully collecting software license fees under the original terms of the software license arrangement without making concessions, which would have enabled it to recognize software license fee revenue upon delivery of the software products. In addition, certain contracts previously accounted for under the RUF policy contained cancellation clauses and MLFs that vary with customer usage (i.e., usage-based fees). Therefore, license fees for these arrangements were also not fixed and determinable at the outset of the arrangement. As a result, the Company's consolidated financial statements have been restated to recognize revenues under software license arrangements with extended payment terms over the term of the underlying license arrangements, as payments become due and payable rather than up-front (or ratably for subscription arrangements).

Under the Company's previous accounting, the license fee revenue recognized-up-front was generally the net present value of the monthly license fee ("MLF") payments. The difference between the payments to be received from the customer and the amount of license fee revenue recognized was accounted for as interest income using the effective interest rate method. The revised treatment for these arrangements has resulted in a reduction in interest income for the amounts previously recorded under these arrangements. In addition, the Company previously sold the MLF payment stream for certain of these previously recognized software license arrangements. The previous treatment resulted in the de-recognition of the transferred asset accounts receivable following the sale of the MLF receivable. The revised treatment for these

arrangements has resulted in the recording of periodic interest expense for the difference between the proceeds received under the factoring arrangements and the license fee revenues recognized under the arrangements. Due to the Company's continuing involvement in the maintenance services, the cash proceeds have been recorded as debt - financing agreements.

*VSOE.* The Company's software license arrangements typically include the licensing of software and providing of PCS. The bundled software license arrangements generally have a separate stated term for each of the software license and the PCS. The software license term generally ranges from 12 to 60 months, although some arrangements have a software license term extending beyond 60 months. The PCS term is generally 12 to 24 months, although certain of these arrangements have a PCS term that is the same as the software license term.

SOP 97-2 requires the seller of software that includes PCS to establish VSOE of fair value of the undelivered element of the contract in order to account separately for the PCS revenue. For certain of the Company's products, VSOE of the fair value of PCS is determined by a consistent pricing of PCS and PCS renewals as a percentage of the software license fees. In other products, the Company determines VSOE by reference to contractual renewals, when the renewal terms are substantive. In

those cases where VSOE of the fair value of PCS is determined by reference to contractual renewals, the Company considers factors such as whether the period of the initial PCS term is relatively long when compared to the term of the software license or whether the PCS renewal rate is significantly below the Company's normal pricing practices. In arrangements where a one-year term license is bundled with PCS or the initial PCS term is relatively long (i.e., greater than 50%) compared to the license term, the Company has determined that it does not have VSOE of the PCS element from renewal terms, and license fee and PCS revenues have been restated and recognized ratably over the PCS period.

*Customer Acceptance.* Certain of the Company's software arrangements (primarily those in the Asia/Pacific region) include payment terms that are enforceable only upon the passage of time or customer acceptance. Historically, for most of the software license arrangements that contain customer acceptance provisions, the Company recognized software license fee revenue upon delivery of the software products, assuming that all other revenue recognition criteria had been met. The Company's consolidated financial statements have been restated to recognize revenues under software license arrangements with customer acceptance provisions upon the earlier of the point at which (1) the customer accepts the software products or (2) the acceptance provisions lapse. For those software license arrangements in which acceptance did not ultimately occur, this restated treatment resulted in a reduction in previously recognized revenues.

*Collectibility.* It has been determined that certain software license revenue was recognized for which collection was not reasonably assured. The Company's consolidated financial statements have been restated to recognize revenue from these arrangements as cash was received. For those software license arrangements in which collectibility was not probable at the onset of the arrangement and for which the Company received no cash or only a portion of the fees, this restated treatment resulted in a reduction of previously recognized revenues and bad debts expense.

*Contract Accounting.* SOP 97-2 requires that an arrangement to deliver software that requires significant production, modification, or customization of software should be accounted for in accordance with ARB No. 45 and the relevant guidance provided by SOP 81-1. This guidance is often referred to as contract accounting. The Company has certain software license arrangements, which are subject to contract accounting. Although payment terms are generally spread out over time in contract accounting, the concepts and risks of extended payment terms also apply to arrangements accounted for under contract accounting. The Company has determined that certain of its contract accounting arrangements contain extended payment terms and therefore the associated fees are not considered fixed and determinable. In addition, the Company previously recognized revenue up-front on certain contracts that required significant production, modification, or customization. The Company's consolidated financial statements have been restated to (1) revise the estimated total revenue under the contract which was used in the current percentage complete computations to exclude amounts due under extended payment terms, and (2) recognize revenue based on percentage completion estimated for those contracts in which revenue was previously recorded when the software was delivered even though significant customization of the delivered software was required.

*Subscription Accounting.* The Company has certain software license arrangements in which the customer has the ability to receive additional unspecified products over a limited period. Previously the Company recognized software license fee revenue upon delivery of the initial products specified in the software license arrangement. SOP 97-2 states that the software license revenue under these arrangements should be recognized ratably over the term of the arrangement, beginning with the delivery of the first product. One of the software license arrangements identified is Digital Courier

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Technologies, Inc. ("DCTI"). The Company's consolidated financial statements have been restated to recognize revenue from these arrangements ratably over the term of the arrangement.

*Multiple-Element Arrangements.* The Company has certain multiple-product arrangements of which only a portion of the software products are delivered to the customer. Previously, the Company recognized license fee revenue for the portion of the total fee that related to the delivered products as determined by stated contract values. SOP 97-2, as amended by SOP 98-9, states that for arrangements that involve multiple elements either (1) the entire fee from the arrangement must be allocated to each of the individual elements, based on each element's VSOE of fair value, or (2) VSOE of the fair value must be established for the undelivered elements with the entire discount allocated to the delivered elements. In addition, the Company occasionally enters into more than one contract with a single customer within a short period of time. Certain of these arrangements are so closely related that they are, in substance, parts of a single arrangement. If VSOE of fair value does not exist, all revenue from the arrangement must be deferred until the earlier of when (1) such evidence does exist for each element, (2) all the elements have been delivered, or (3) the evidence of fair value exists for the undelivered elements. For certain software license arrangements in which only a portion of the products are delivered, it has been determined that VSOE of fair value for the undelivered products does not exist. The Company's consolidated financial statements have been restated for these arrangements to defer recognition of revenue for the entire arrangement until all the products in the arrangement have been delivered or at such time that it has been determined that the additional products will not be delivered, as evidenced by customer acknowledgement of credits due, if any.

*Delivery/Term Commencement.* The Company has identified certain arrangements in which delivery of the software products and/or commencement of the license term had not occurred prior to revenue being recognized. The Company has restated its consolidated financial statements for these arrangements to recognize revenue upon delivery to the customer and commencement of the license term.

*Gross versus Net, Distributor Arrangements.* The Company has inconsistently classified revenues generated from arrangements in which it has acted as a sales agent for another company's product. The Company has restated its revenues related to arrangements previously reported gross. This has resulted in the reduction of previously reported costs of software licenses in which the Company does not take title to the products, is not responsible for providing the product or service, earns a fixed commission, and assumes credit risk only to the extent of its commissions.

### *Operating Expenses and Other*

*Purchase Accounting.* The Company has adjusted the purchase accounting for the acquisitions of Insession Inc., SDM International, Inc. ("SDM") and MDL, which were made in fiscal 2001, 2000 and 1999, respectively. The adjustments relate to the determination of the fair market value of the TSA Class A Common Stock issued to the shareholders of SDM and MDL and the determination of the fair value of deferred revenue of Insession, Inc. These adjustments resulted in a net increase to the amount of purchase price allocated to goodwill. The Company based the valuation of the SDM and MDL acquisitions on the fair market value of the TSA Class A Common Stock given as consideration for the acquisitions. The acquisition of SDM was valued based upon the Company's stock price on the third day subsequent to the announcement of the transaction. The acquisition of MDL was valued based on an average of the Company's stock price for one day prior to and four days after the announcement of the transaction. The Company has re-measured the purchase price of each acquisition based on the average closing sale price of a share of TSA Class A Common Stock using a period beginning two days before and ending two days after the date of the announcement. Additionally, the deferred revenue of

Insession Inc. has been reduced to fair market value resulting in a reduction in previously recorded goodwill and previously recorded revenues.

In addition, SFAS No. 109, "Accounting for Income Taxes," requires the recognition of deferred tax liabilities for the tax consequences of differences between the assigned values of identifiable intangible assets acquired in a business combination and the tax basis of such assets. Previously, the Company did not record the deferred tax liability for certain identifiable intangible assets acquired in the Insession Inc. and MDL transactions. The Company's consolidated financial statements have been restated to recognize the deferred tax liabilities for these identifiable intangible assets. This treatment results in an increase in the allocation of purchase price to goodwill for these transactions.

These purchase accounting adjustments resulted in increases to goodwill, goodwill amortization expense for all periods prior to the adoption of SFAS No. 142 on October 1, 2001, and the subsequent impairment losses recorded for those acquisitions.

*Capitalized Software.* Regency Systems, Inc, a wholly-owned subsidiary of the Company until February 2002, previously capitalized costs associated with the development of its Internet banking product. Regency began amortizing the capitalized software in the second quarter of fiscal 2001. Subsequent to the Internet banking product being made generally available for sale, Regency continued to capitalize software development costs that should have been expensed. Therefore, previously capitalized software development costs have been charged to research and development costs, and software amortization expense has been reversed. In addition, the Company was previously capitalizing costs

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associated with the development of the IntraNet CO-ach software product. It has been determined that these software costs should not have been capitalized as the underlying product was also part of an on-going international customer project under which the Company was recognizing revenue using percentage-of-completion contract accounting. Therefore, previously capitalized software development costs have been reclassified to cost of software license fees.

*Bad Debts.* The allowance for doubtful accounts and bad debts expense has been reduced for the various revisions the Company has made to its revenue recognition policies (described above). The changes to revenue recognition have generally resulted in the deferral or elimination of previously recognized revenue and accounts receivable. The Company has restated its allowance for doubtful accounts and bad debts expense to take into account changes to revenue recognition for those accounts for which revenue was previously recognized and subsequently written off as bad debts expense.

*Accrued Liabilities.* Certain accounting differences were discovered with respect to the recorded amount of accrued liabilities when compared to amounts actually paid out related to these accrued liabilities, resulting in a reduction in accrued liabilities in fiscal 2002 and 2001, and an increase in accrued liabilities in fiscal 2000 and 1999. Such differences included adjustments for commission liabilities, variable compensation and other accrued expenses.

*Facilities Management Set-up Costs.* In fiscal 1999, the Company capitalized set-up costs associated with a facilities management arrangement. These set-up costs were being amortized over the three-year term of the arrangement although the Company had previously recognized up-front fees related to initial installation. In the third quarter of fiscal 2002, the Company wrote-off the unamortized balance of the previously capitalized set-up costs. It was subsequently determined that these costs should have been expensed as incurred in the absence of deferral of the installation revenues. Therefore, previously capitalized set-up costs have been reclassified to operating expenses, and amortization expense has been reduced. In addition, the previously recorded write-off of the unamortized balance has been reversed.

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*Distributor Commissions.* Certain of the revenue adjustments described previously resulted in changes to the amount of royalty expense owed to the owners of third-party products.

*Corporate Restructuring.* As described in Note 4, the Company has determined that certain previously recognized restructuring liabilities associated with the Company's fiscal 2001 restructuring plan did not meet the requirements for liability recognition at the commitment date. In certain cases, the original plan of workforce reductions was not in sufficient detail to ensure that significant changes to the plan were unlikely before completion and, in other cases, the requirements for notifying employees of the workforce reductions did not occur. The liabilities for restructuring activities also included other human resource, bad debt, warranty and operating expenses that either benefited future periods or were unrelated to exit activities in the restructuring plan. As a result, the Company has restated the consolidated financial statements to reduce the fiscal 2001 restructuring charge. Costs unrelated to exit activities under the restructuring plan have been reclassified to recognize the expense as incurred and classified separately from restructuring charges.

The Company also determined that certain previously recognized impairment losses and other charges were unrelated to restructuring and exit plans. Those entries included corrections of previous purchase price allocations for an acquisition, unrecoverable software development costs, and impairments of notes receivable and equity investments. As a result, the Company has reclassified the previously reported impairment losses for items unrelated to exit activities and, where appropriate, corrected the measurement and timing of loss recognition.

*Goodwill Impairment.* Effective October 1, 2001, the Company adopted SFAS No. 142 and hired an independent consultant to perform valuations of the Company's reporting units that contain goodwill. Based on that analysis, an impairment loss was previously recognized as a cumulative effect of accounting change during the first quarter of fiscal 2002.

The Company had previously concluded that no impairment loss was required at September 30, 2001 because the undiscounted cash flows from MDL over a 15-year period would be sufficient to recover the carrying value of goodwill. The Company has revised its goodwill analysis under APB Opinion No. 17, "Intangible Assets," and SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," to only consider undiscounted cash flows during the estimated useful life of the asset. Fiscal 2001 consolidated financial statements were restated to include an impairment charge based on the current estimated fair value of MDL.

In addition, the Company has reclassified a portion of the non-recurring charge related to the transfer of HHPC to the minority shareholder as impairment of goodwill. This charge was previously recorded as a non-operating expense.

*Software Impairment.* In connection with the restatement, the Company performed an analysis of the carrying value of the MDL software as of September 30, 2001. From this analysis, it was determined recovery of the MDL software was impaired. Consequently, the MDL software

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was written off to impairment of long-lived assets in the fourth quarter of fiscal 2001.

*Interest Income and Interest Expense.* As discussed above under the heading *Fixed or Determinable*, certain revenue recognition restatements also resulted in restatements of interest income and interest expense. Proceeds from the factoring of extended payment term license arrangements have been recorded as debt, whereas the Company's previous accounting had resulted in the derecognition of unbilled receivables. Interest income has been reduced as a result of adjustments related to RUF accounting (described above). Interest expense has been increased as a result of the amortization of discounts on proceeds from factored license arrangements classified as debt.

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*Investments.* The Company has licensed its products to certain customers immediately prior to, contemporaneously with, or immediately after it had made an investment in those customers. It was subsequently determined that fair value of the underlying equity investments could not be readily determined. Therefore, these transactions should have been accounted for as non-monetary exchanges in accordance with APB Opinion No. 29. Under APB Opinion No. 29, the exchange of assets when fair value cannot be readily determined is recorded at the historical cost of the asset surrendered. In addition, in certain circumstances it was not clear that the investee/customer could satisfy the cash requirements of the license arrangement absent the cash investment. As a result, the carrying value of certain investments was reduced by the amount of license revenue recognized prior to October 1, 1999 in the restatement of the Company's consolidated financial statements. This restated treatment has resulted in a reduction in previously recognized revenues and, in certain cases reduced previously reported impairment losses for other than temporary declines in the related investments.

In addition, the Company made investments in publicly-traded companies. Previously the Company recorded charges to earnings for the other than temporary declines in market values for these investments. The Company revised the amount of charges to earnings for these other than temporary declines of these investments to adjust the carrying value of the securities to quoted market value on the date of impairment.

*Foreign Currency.* As a result of the adjustments, the computed amount of transaction gains and losses has changed.

*Regency Gain.* Certain of the adjustments previously described resulted in a decrease in the net book value of Regency. These adjustments consist of a reduction in capitalized software costs, a reduction in recognized revenues and a reduction in the allowance for doubtful accounts. As a result of these adjustments, the gain on sale of subsidiary, as discussed in Note 5 to the consolidated financial statements, has increased.

### *Income Taxes*

The tax provision for all periods presented was adjusted for (1) the impact of adjustments described above, (2) a previously recognized tax benefit for the MDL impairment loss which was a permanent difference for accounting purposes, and (3) adjustments to previously reported current income tax expense for the effects of changes in accrued tax reserves for tax exposure items.

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### *Presentation of Restated Consolidated Financial Information*

The following table sets forth selected consolidated balance sheet data for the Company, showing the previously reported and restated amounts, at June 30, 2002 and September 30, 2001 (amounts in thousands):

| <b>As of June 30, 2002</b> | <b>As<br/>Previously<br/>Reported</b> | <b>Restated</b> |
|----------------------------|---------------------------------------|-----------------|
| <b>Current assets:</b>     |                                       |                 |
| Cash and cash equivalents  | \$ 59,268                             | \$ 59,123       |
| Marketable securities      | 2,960                                 | 5,212           |
| Billed receivables, net    | 49,986                                | 55,698          |
| Accrued receivables        | 36,616                                | 12,911          |

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| As of June 30, 2002                               | As<br>Previously<br>Reported | Restated          |
|---|------------------------------|-------------------|
| Deferred income taxes, net                        | 9,550                        | 25,744            |
| Other   | 6,858                        | 5,974             |
| <b>Total current assets</b>                       | <b>165,238</b>               | <b>164,662</b>    |
| Property and equipment, net                       | 12,444                       | 12,444            |
| Software, net                                     | 16,048                       | 6,303             |
| Goodwill, net                                     | 50,179                       | 57,980            |
| Long-term accrued receivables                     | 18,320                       |                   |
| Deferred income taxes, net                        | 18,319                       | 22,502            |
| Other   | 3,983                        | 3,774             |
| <b>Total assets</b>                               | <b>\$ 284,531</b>            | <b>\$ 267,665</b> |
| <b>Current liabilities:</b>                       |                              |                   |
| Current portion of debt financing agreements      | \$                           | \$ 20,114         |
| Line of credit                                    | 422                          |                   |
| Accounts payable                                  | 7,476                        | 7,656             |
| Accrued employee compensation                     | 9,561                        | 5,171             |
| Accrued liabilities                               | 19,552                       | 14,491            |
| Income taxes payable                              | 769                          | 12,824            |
| Deferred revenue                                  | 38,204                       | 49,546            |
| Other   |                              | 367               |
| <b>Total current liabilities</b>                  | <b>75,984</b>                | <b>110,169</b>    |
| Debt financing agreements                         |                              | 28,435            |
| Deferred revenue                                  | 8,365                        | 27,163            |
| Other   | 2,402                        | 2,402             |
| <b>Total liabilities</b>                          | <b>86,751</b>                | <b>168,169</b>    |
| <b>Stockholders' equity:</b>                      |                              |                   |
| Class A Common Stock                              | 184                          | 183               |
| Treasury stock                                    | (35,258)                     | (35,258)          |
| Additional paid-in capital                        | 223,541                      | 228,168           |
| Accumulated deficit                               | 19,332                       | (84,984)          |
| Accumulated other comprehensive loss              | (10,019)                     | (8,613)           |
| <b>Total stockholders' equity</b>                 | <b>197,780</b>               | <b>99,496</b>     |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 284,531</b>            | <b>\$ 267,665</b> |

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| As of September 30, 2001 | As<br>Previously<br>Reported | Restated |
|--------------------------|------------------------------|----------|
|--------------------------|------------------------------|----------|



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| As of September 30, 2001                     | As<br>Previously<br>Reported | Restated          |
|--|------------------------------|-------------------|
| <b>Current assets:</b>                       |                              |                   |
| Cash and cash equivalents                    | \$ 32,252                    | \$ 32,004         |
| Marketable securities                        | 2,650                        | 4,765             |
| Billed receivables, net                      | 50,277                       | 55,690            |
| Accrued receivables                          | 50,932                       | 23,414            |
| Deferred income taxes, net                   | 8,700                        | 10,589            |
| Other  | 12,901                       | 9,420             |
|  | <b>157,712</b>               | <b>135,882</b>    |
| Property and equipment, net                  | 14,580                       | 14,474            |
| Software, net                                | 27,954                       | 11,778            |
| Goodwill, net                                | 82,327                       | 57,371            |
| Deferred income taxes, net                   | 13,627                       | 47,097            |
| Other  | 31,253                       | 5,801             |
|  | <b>327,453</b>               | <b>272,403</b>    |
| <b>Current liabilities:</b>                  |                              |                   |
| Current portion of debt financing agreements | \$                           | \$ 13,104         |
| Line of credit                               | 12,000                       | 12,000            |
| Accounts payable                             | 13,542                       | 13,633            |
| Accrued employee compensation                | 9,030                        | 7,194             |
| Accrued liabilities                          | 23,369                       | 18,130            |
| Income taxes payable                         |                              | 2,013             |
| Deferred revenue                             | 35,857                       | 47,358            |
| Other  | 559                          | 504               |
|  | <b>94,357</b>                | <b>113,936</b>    |
| Debt financing agreements                    |                              | 44,135            |
| Long-term deferred revenue                   | 12,610                       | 28,544            |
| Other  | 1,818                        | 1,818             |
|  | <b>108,785</b>               | <b>188,433</b>    |
| <b>Stockholders' equity:</b>                 |                              |                   |
| Class A Common Stock                         | 184                          | 183               |
| Treasury stock                               | (35,258)                     | (35,258)          |
| Additional paid-in capital                   | 222,501                      | 227,126           |
| Accumulated deficit                          | 42,016                       | (99,196)          |
| Accumulated other comprehensive loss         | (10,775)                     | (8,885)           |
|  | <b>218,668</b>               | <b>83,970</b>     |
|  | <b>\$ 327,453</b>            | <b>\$ 272,403</b> |
| Total liabilities and stockholders' equity   | <b>\$ 327,453</b>            | <b>\$ 272,403</b> |

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The following table sets forth selected unaudited consolidated quarterly financial data for the Company, showing previously reported amounts, restatement adjustments and restated amounts, for each quarter in the nine months ended June 30, 2002 and 2001 (amounts in thousands except per share amounts):

|  | Nine Months<br>Ended<br>June 30, 2002 | Quarter Ended    |                   |                  |
|--|---------------------------------------|------------------|-------------------|------------------|
|  |                                       | June 30,<br>2002 | March 31,<br>2002 | Dec. 31,<br>2001 |
|  |                                       | (Unaudited)      | (Unaudited)       | (Unaudited)      |
| Total revenues, as previously reported           | \$ 195,959                            | \$ 64,976        | \$ 65,673         | \$ 65,310        |
| Fixed or determinable                            | 16,534                                | 3,174            | 7,017             | 6,343            |
| VSOE   | (1,303)                               | (461)            | (1,490)           | 648              |
| Customer acceptance                              | (123)                                 | 193              | (44)              | (272)            |
| Collectibility                                   | 480                                   | (21)             | 842               | (341)            |
| Contract accounting                              | 702                                   | 1,070            | (488)             | 120              |
| Subscription accounting                          | 1,511                                 | 531              | 449               | 531              |
| Multiple-element arrangements                    | (155)                                 | (346)            | (329)             | 520              |
| Delivery/term commencement                       | (205)                                 | 17               | 56                | (278)            |
| Gross versus net distributor arrangements        | (904)                                 | (280)            | (359)             | (265)            |
| Other  | (50)                                  | 88               | (573)             | 435              |
| Revenue adjustments                              | 16,487                                | 3,965            | 5,081             | 7,441            |
| Total revenues, restated                         | 212,446                               | 68,941           | 70,754            | 72,751           |
| Total operating expenses, as previously reported | 191,875                               | 61,833           | 63,971            | 66,071           |
| Purchase accounting                              | (40)                                  | 1                | 1                 | (42)             |
| Capitalized software                             | (1)                                   | 17               | 90                | (108)            |
| Bad debts  | (5,262)                               | (3,838)          | (137)             | (1,287)          |
| Accrued liabilities                              | (2,695)                               | 743              | (1,393)           | (2,045)          |
| FM set-up costs                                  | (1,241)                               | (823)            | (152)             | (266)            |
| Distributor commissions                          | (119)                                 | 178              | (125)             | (172)            |
| Corporate restructuring                          | 408                                   | 52               | 263               | 93               |
| Software impairment                              | (2,816)                               | (946)            | (930)             | (940)            |
| Gross versus net distributor arrangements        | (904)                                 | (280)            | (359)             | (265)            |
| Other  | (809)                                 | (551)            | (191)             | (67)             |
| Operating expense adjustments                    | (13,479)                              | (5,447)          | (2,933)           | (5,099)          |
| Total operating expenses, restated               | 178,396                               | 56,386           | 61,038            | 60,972           |
| Operating income (loss), as previously reported  | 4,084                                 | 3,143            | 1,702             | (761)            |
| Revenue adjustments                              | 16,487                                | 3,965            | 5,081             | 7,441            |
| Operating expense adjustments                    | 13,479                                | 5,447            | 2,933             | 5,099            |
| Operating income (loss), restated                | 34,050                                | 12,555           | 9,716             | 11,779           |

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|   | Quarter Ended     |                   |                   |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   |                   |                   |                   |                   |
| Total other income (expense), as previously reported      | 2,956             | 974               | 5,068             | (3,086)           |
| Interest income   | (1,780)           | (360)             | (572)             | (848)             |
| Interest expense  | (3,850)           | (1,198)           | (1,271)           | (1,381)           |
| Investments   | 451               | 1,098             | (475)             | (172)             |
| Foreign currency  | (883)             | (829)             | (25)              | (29)              |
| Regency gain  | 4,142             |                   | 4,142             |                   |
| Other   | (346)             | (170)             | 87                | (263)             |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total other income (expense) adjustments                  | (2,266)           | (1,459)           | 1,886             | (2,693)           |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total other income (expense), restated                    | 690               | (485)             | 6,954             | (5,779)           |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Income (loss) before income taxes, as previously reported | 7,040             | 4,117             | 6,770             | (3,847)           |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Income (loss) before income taxes, restated               | 34,740            | 12,070            | 16,670            | 6,000             |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Income tax benefit (provision), as previously reported    | (4,021)           | (2,848)           | (2,220)           | 1,047             |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Income tax benefit (provision), restated                  | (20,528)          | (7,066)           | (9,879)           | (3,583)           |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income (loss), as previously reported                 | (22,685)          | 1,269             | 4,550             | (28,504)          |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income (loss), restated                               | 14,212            | 5,004             | 6,791             | 2,417             |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Earnings (loss) per share:                                |                   |                   |                   |                   |
| Basic, as previously reported                             | (0.64)            | 0.04              | 0.13              | (0.81)            |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Basic, restated   | 0.40              | 0.14              | 0.19              | 0.07              |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Diluted, as previously reported                           | (0.64)            | 0.04              | 0.13              | (0.81)            |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Diluted, restated   | 0.40              | 0.14              | 0.19              | 0.07              |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
|   | 20                |                   |                   |                   |

|  | Quarter Ended                         |                  |                   |                  |
|--|---------------------------------------|------------------|-------------------|------------------|
|  | Nine Months<br>Ended<br>June 30, 2001 | June 30,<br>2001 | March 31,<br>2001 | Dec. 31,<br>2000 |
|  |                                       | (Unaudited)      | (Unaudited)       | (Unaudited)      |
| Total revenues, as previously reported | \$ 224,799                            | \$ 73,671        | \$ 76,492         | \$ 74,636        |
| Fixed or determinable                  | 3,602                                 | (3,231)          | 9,012             | (2,179)          |
| VSOE                                   | (7,837)                               | (1,203)          | (6,278)           | (356)            |
| Customer acceptance                    | (749)                                 | 326              | (671)             | (404)            |
| Collectibility                         | (950)                                 | (185)            | 109               | (874)            |
| Contract accounting                    | (1,646)                               | (1,090)          | (903)             | 347              |

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|   | Quarter Ended |          |         |          |
|---|---------------|----------|---------|----------|
|   |               |          |         |          |
| Subscription accounting                                   | 790           | 411      | 205     | 174      |
| Multiple-element arrangements                             | (431)         | (405)    | (691)   | 665      |
| Delivery/term commencement                                | 25            | 389      | 691     | (1,055)  |
| Other   | (847)         | (778)    | 190     | (259)    |
| Revenue adjustments                                       | (8,043)       | (5,766)  | 1,664   | (3,941)  |
| Total revenues, restated                                  | 216,756       | 67,905   | 78,156  | 70,695   |
| Total operating expenses, as previously reported          | 249,413       | 93,177   | 77,676  | 78,560   |
| Purchase accounting                                       | 1,965         | 842      | 703     | 420      |
| Capitalized software                                      | 1,154         | (182)    | 81      | 1,255    |
| Bad debts   | (9,569)       | (8,554)  | (431)   | (584)    |
| Accrued liabilities                                       | (6,359)       | (2,174)  | 250     | (4,435)  |
| FM set-up costs   | (951)         | (291)    | (174)   | (486)    |
| Distributor commissions                                   | 177           | 324      | 19      | (166)    |
| Corporate restructuring                                   | (1,280)       | (1,280)  |         |          |
| Goodwill impairment                                       | 6,252         | 6,252    |         |          |
| Other   | 1,018         | 1,868    | (197)   | (653)    |
| Operating expense adjustments                             | (7,593)       | (3,195)  | 251     | (4,649)  |
| Total operating expenses, restated                        | 229,316       | 77,478   | 77,927  | 73,911   |
| Operating income (loss), as previously reported           | (24,614)      | (19,506) | (1,184) | (3,924)  |
| Revenue adjustments                                       | (8,043)       | (5,766)  | 1,664   | (3,941)  |
| Operating expense adjustments                             | 20,097        | 15,699   | (251)   | 4,649    |
| Operating income (loss), restated                         | (25,064)      | (22,077) | 229     | (3,216)  |
| Total other income (expense), as previously reported      | (21,798)      | (6,944)  | (1,021) | (13,833) |
| Interest income   | (1,870)       | (1,383)  | (143)   | (344)    |
| Interest expense  | (3,961)       | (1,335)  | (1,317) | (1,309)  |
| Goodwill impairment                                       | 6,252         | 6,252    |         |          |
| Investments   | 418           | (618)    | (437)   | 1,473    |
| Foreign currency  | (25)          | (132)    | 531     | (424)    |
| Regency gain  |               |          |         |          |
| Other   | (488)         | 9        | (368)   | (129)    |
| Total other income (expense) adjustments                  | 326           | 2,793    | (1,734) | (733)    |
| Total other income (expense), restated                    | (21,472)      | (4,151)  | (2,755) | (14,566) |
| Income (loss) before income taxes, as previously reported | (46,412)      | (26,450) | (2,205) | (17,757) |
| Income (loss) before income taxes, restated               | (46,536)      | (26,228) | (2,526) | (17,782) |
| Income tax benefit (provision), as previously reported    | 6,941         | 4,935    | (1,399) | 3,405    |

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|   | Quarter Ended |          |         |          |
|---|---------------|----------|---------|----------|
|   |               |          |         |          |
| Income tax benefit (provision), restated  | (1,549)       | (881)    | (44)    | (624)    |
| Net income (loss), as previously reported | (39,471)      | (21,515) | (3,604) | (14,352) |
| Net income (loss), restated               | (48,085)      | (27,109) | (2,570) | (18,406) |
| <b>Earnings (loss) per share:</b>         |               |          |         |          |
| Basic, as previously reported             | (1.17)        | (0.61)   | (0.10)  | (0.45)   |
| Basic, restated                           | (1.42)        | (0.77)   | (0.07)  | (0.58)   |
| Diluted, as previously reported           | (1.17)        | (0.61)   | (0.10)  | (0.45)   |
| Diluted, restated                         | (1.42)        | (0.77)   | (0.07)  | (0.58)   |
|   | 21            |          |         |          |

#### 4. Corporate Restructuring Charges and Asset Impairment Losses

During fiscal 2001, the Company closed or significantly reduced the size of certain product development organizations and geographic sales offices. These actions resulted in restructuring charges and asset impairment losses of \$5.2 million (restated) and \$0.7 million (restated), respectively, which is reflected in operating expenses in the accompanying statement of operations for the three months and nine months ended June 30, 2001. The allocation of these charges is as follows: \$0.2 million in cost of maintenance and services, \$0.3 million in research and development, \$0.2 million selling and marketing, and \$5.2 million in general and administrative.

The following table summarizes the liability recognition related to the restructuring charges and subsequent activity related to these exit activities:

|  | Termination<br>Benefits | Lease<br>Obligations | Total      |
|--|-------------------------|----------------------|------------|
|  | (Restated)              | (Restated)           | (Restated) |
| Fiscal 2001 restructuring charges                      | \$ 3,477                | \$ 1,768             | \$ 5,245   |
| Forgiveness of former executive officer's note         | (2,050)                 |                      | (2,050)    |
| Amounts paid during fiscal 2001                        | (1,397)                 | (177)                | (1,574)    |
| Other adjustments to previously recognized liabilities |                         | (115)                | (115)      |
| Balance, September 30, 2001                            | 30                      | 1,476                | 1,506      |
| Amounts paid during fiscal 2002                        | (30)                    | (273)                | (303)      |
| Balance, June 30, 2002                                 | \$                      | \$ 1,203             | \$ 1,203   |

The Company also recorded asset impairment charges of \$0.7 million (restated) for equipment and leasehold improvements that were abandoned in vacated office facilities.

The Company terminated approximately 47 employees during fiscal 2001 as part of this restructuring process, including 37 employees in the ACI Worldwide business unit, one employee in the IntraNet business unit and nine employees in Corporate Services. Termination benefits do not include any amounts for employment related services prior to termination.

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In addition to these workforce reductions, termination benefits include \$2.1 million (restated) of compensation expense related to the forgiveness of a note receivable from the Company's former Chief Executive Officer ("CEO"). The note forgiveness amount classified with restructuring expenses is net of compensation expense accruing to the CEO through the date of the severance agreement.

The liability for lease obligations includes \$1.3 million for abandonment and reduction of four facilities in the United States, Japan and Europe, net of expected third-party purchases or sub-leases, and an estimated lease termination loss of \$0.5 million for the corporate aircraft. The Company continues to seek subleases for certain of the properties as well as an exit to the corporate aircraft lease. The final settlement of these obligations may result in other adjustments to these liabilities.

### 5. Line of Credit Facilities

During the three months ended June 30, 2002, the Company renewed its bank line of credit agreement with a United States bank, reducing the available credit amount pursuant to the agreement from \$25.0 million to \$15.0 million. This credit agreement is secured by certain trade receivables and provides that the Company must satisfy certain specified earnings, working capital and minimum tangible net worth requirements, as defined, and places restrictions on the Company's ability to, among other things, sell assets, incur debt, pay dividends, participate in mergers and make investments or guarantees. As a result of the restatement discussed in Note 3 above, the Company will not be in compliance with the loan covenants and therefore the facility will not be available for borrowings. The

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Company had no line of credit borrowings outstanding as of June 30, 2002. The Company also has a line of credit agreement with a foreign bank in the amount of 3.0 million British Sterling, which translates to approximately \$4.6 million as of June 30, 2002. The foreign credit agreement requires the Company to maintain minimum tangible net worth within the Company's wholly-owned subsidiary, ACI Worldwide (EMEA) Ltd.

Interest on the U.S. credit facility accrues at an annual rate equal to either the bank's prime rate or the LIBOR rate plus 2% and is payable monthly. Interest on the foreign credit facility accrues at an annual rate of 1% above the bank's "base rate." The Company recorded interest expense and related fees of \$15,000 and \$249,000 during the three months ended June 30, 2002 and 2001, respectively, and \$180,000 and \$1,270,000 during the nine months ended June 30, 2002 and 2001, respectively, related to its line of credit facilities. The carrying amounts of the Company's credit facilities approximate fair value due to their variable interest rates. The Company has no line of credit borrowings outstanding as of June 30, 2002. The U.S. credit facility expires in June 2003 and the foreign credit facility expires in October 2002.

### 6. Debt Financing Arrangements

During the nine months ended June 30, 2002 and 2001, the Company sold the rights to future payment streams under software license arrangements with extended payment terms to financial institutions and received cash of approximately \$7.6 million and \$16.3 million, respectively. The amount of the proceeds received from the financing arrangements is typically determined by applying a discount rate to the gross future payments to be received from the customer. The discount rates used to determine the proceeds ranged from 6.5% to 7.8% in fiscal 2002, and 6.9% to 9.0% in fiscal 2001. In accordance with EITF 88-18, "Sales of Future Revenues," the Company has recorded the proceeds received from these financing arrangements as debt and reduces the debt principal as payments are made. Interest on the debt accrues monthly using the effective interest method. During the nine months ended June 30, 2002 and 2001, the Company recorded interest expense of \$3.8 million and \$4.0 million, respectively, related to these financing arrangements.

### 7. Other Income and Expense

Other (income) expense is comprised of the following items:

|  | Three Months Ended<br>June 30, |            | Nine Months Ended<br>June 30, |            |
|--|--------------------------------|------------|-------------------------------|------------|
|  | 2002                           | 2001       | 2002                          | 2001       |
|  | (Restated)                     | (Restated) | (Restated)                    | (Restated) |
| Other than temporary impairments of marketable investments       | \$                             | \$ 550     | \$                            | \$ 3,407   |
| Other than temporary impairments of marketable equity securities | 1,129                          | 69         | 4,658                         | 8,425      |
| Write-off of Insession Technologies, Inc. IPO costs              |                                |            |                               | 1,898      |

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|   | Three Months Ended<br>June 30, |                 | Nine Months Ended<br>June 30, |                  |
|---|--------------------------------|-----------------|-------------------------------|------------------|
| Transfer of HHPC                              |                                | 1,154           |                               | 1,154            |
| Gain of sale of Regency (see Note 8)          | (475)                          |                 | (8,743)                       |                  |
| Foreign currency transaction gains and losses | (999)                          | 1,022           | 32                            | 2,191            |
| Other   | (79)                           | 13              | 25                            | 113              |
| <b>Total</b>                                  | <b>\$ (424)</b>                | <b>\$ 2,808</b> | <b>\$ (4,028)</b>             | <b>\$ 17,188</b> |

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During fiscal 2002 and 2001, the Company recorded non-operating, non-cash charges to earnings for the other than temporary decline in the market value of its investments in Nestor, Inc., Digital Courier Technologies, Inc. and S1 Corporation.

During the course of fiscal 1998 through fiscal 2000, the Company made investments in various start-up technology companies. During fiscal 2001, after considering current market conditions for technology companies and specific information regarding those companies in which the Company had an ownership interest, the Company determined that the declines in the market values for these investments were other than temporary and charges to earnings for the impairments of these investments were required.

The Company expensed costs of \$1.9 million associated with the cancelled initial public offering ("IPO") of its wholly-owned subsidiary, Insession Technologies, Inc. in fiscal 2001.

During fiscal 2001, the Company transferred its 70% ownership in HHPC to the minority shareholder. As a result of the transfer, the Company recorded a non-recurring charge of \$1.2 million to write off its investment, net of recorded goodwill. See Note 9.

Included in marketable securities and recorded at current market value are 400,561 shares of S1 Corporation ("S1") common stock received in connection with the Company's sale of Regency. S1's share value has declined between the time the Regency transaction closed and June 30, 2002. Due to the short time the Company has owned these shares, the decline in the value of this investment has been treated as temporary, with unrealized losses included in accumulated other comprehensive loss in the stockholders' equity section of the financial statements. The Company will continue to evaluate its holding in S1 common stock for evidence of "other than temporary" impairment. If the Company determines that there is an impairment which is deemed to be "other than temporary", the Company will be required to record a non-cash charge to income for this impairment. The difference between the value of the S1 shares at the time of the acquisition and the fair market value as of August 9, 2002 is approximately \$3.6 million to write off its investment, net of recorded goodwill. See Note 9.

## 8. Gain on Sale of Subsidiary

On February 14, 2002, the Company sold Regency Systems, Inc. ("Regency"), which sells voice and Internet banking solutions to small and mid-sized banks, to S1 Corporation ("S1"). Under the terms of the transaction, S1 acquired Regency for 400,561 unregistered shares of S1 common stock and \$6.0 million in cash (\$5.0 million net of expenses associated with the sale). In connection with this transaction, the Company recorded a gain of \$8.7 million during the six months ended March 31, 2002.

Under the terms of the Stock Purchase Agreement, if the fair value of the S1 common stock received (based on the average closing price for the 10 trading days immediately preceding the effective date of the registration statement for those shares) declined below \$5.1 million, or \$12.73 per share, then S1 would owe the Company the difference between \$5.1 million and the fair value of the S1 common stock. Accordingly, due to the decrease in the fair value of its common stock, S1 paid the Company an additional \$0.5 million in May 2002, which was recorded as a gain during the third quarter ended June 30, 2002. S1 shares are included in marketable securities and recorded at current market value. S1's share value has declined between the time the Regency transaction closed and June 30, 2002.

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## 9. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill attributable to each reporting unit with goodwill balances were as follows (in thousands):

**Total**

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|   | ACI<br>Worldwide | Insession<br>Technologies | MessagingDirect<br>Ltd. | Health<br>Payment<br>Systems | _____     |
|---|------------------|---------------------------|-------------------------|------------------------------|-----------|
| Balance, September 30, 2000,<br>restated    | \$ 18,773        | \$ 36,595                 | \$                      | \$ 7,294                     | \$ 62,662 |
| Additions                                   |                  |                           | 47,732                  |                              | 47,732    |
| Foreign currency translation<br>adjustments | (72)             |                           | (1,540)                 |                              | (1,612)   |
| Amortization                                | (2,839)          | (4,773)                   | (6,139)                 | (1,042)                      | (14,793)  |
| Impairment adjustments                      |                  |                           | (30,366)                | (6,252)                      | (36,618)  |
|   | _____            | _____                     | _____                   | _____                        | _____     |
| Balance, September 30, 2001,<br>restated    | 15,862           | 31,822                    | 9,687                   |                              | 57,371    |
| Foreign currency translation<br>adjustments | 217              |                           | 392                     |                              | 609       |
| Purchase price adjustment                   |                  |                           |                         |                              |           |
|   | _____            | _____                     | _____                   | _____                        | _____     |
| Balance, June 30, 2002                      | \$ 16,079        | \$ 31,822                 | \$ 10,079               | \$                           | \$ 57,980 |
|   | _____            | _____                     | _____                   | _____                        | _____     |

During the third quarter of fiscal 2001, the Company transferred its 70% ownership in HHPC to the minority shareholder. As a result of the transfer, the Company recorded a goodwill impairment charge of \$6.3 million.

During the fourth quarter of fiscal 2001, the Company performed an analysis of the carrying value of goodwill related to its acquisition of MDL. As a result of this analysis, the Company determined that due to the overall softness in discretionary information technology spending and slower than expected adoption of secure document delivery technology, MDL's goodwill was impaired. The amount of the impairment was then determined by comparing the estimated fair value of the MDL goodwill to the related carrying value. The fair value was determined using a discounted cash flow approach for the net cash flows of the MDL business and an estimated terminal value. The assumptions supporting the estimated cash flows, including the discount rate and estimated terminal value, reflect management's best estimates at the time. As a result of the fair value test, the Company recorded a charge reducing the carrying value of MDL goodwill by \$30.4 million (restated), which is presented as goodwill impairment in the accompanying consolidated statements of operations.

Effective October 1, 2001, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which established new accounting and reporting requirements for goodwill and other intangible assets with indefinite lives acquired in business combinations. Under SFAS No. 142, goodwill and other intangible assets with indefinite lives continue to be recognized as assets, but are not amortized as previously required by APB Opinion No. 17.

At the adoption of SFAS No. 142, goodwill was tested for impairment at the reporting unit level and must be tested at least annually thereafter, utilizing a two-step methodology. The initial step requires the Company to determine the fair value of each reporting unit and compare it to the carrying value, including goodwill, of such reporting unit. If the fair value exceeds the carrying value, no impairment loss is to be recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of this unit may be impaired. The amount of impairment, if any, is then measured in the second step.

The Company hired an independent consultant to perform valuations of the Company's reporting units that contained goodwill as of October 1, 2001. Completion of the initial step of testing indicated that the estimated fair value of the Company's reporting units exceeded their respective carrying

amounts. Fair value was determined using a discounted cash flow methodology. To the extent that MDL is unable to achieve its forecasts, additional impairment losses may emerge. The MDL reporting unit is included within the ACI Worldwide business unit.

Actual results of operations for the three and nine months ended June 30, 2002 and 2001, shown as if the Company had applied the nonamortization provisions of SFAS No. 142 during that period, are as follows (in thousands, except per share amounts):

**Three Months Ended**

**Nine Months Ended**



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|                                    | June 30,<br>2002 | June 30,<br>2001   | June 30,<br>2002 | June 30,<br>2001   |
|------------------------------------|------------------|--------------------|------------------|--------------------|
|                                    | (Restated)       |                    | (Restated)       |                    |
| Net income (loss), as reported     | \$ 5,004         | \$ (27,109)        | \$ 14,212        | \$ (48,085)        |
| Add back: goodwill amortization    |                  | 4,650              |                  | 10,571             |
| <b>Adjusted net income (loss)</b>  | <b>\$ 5,004</b>  | <b>\$ (22,459)</b> | <b>\$ 14,212</b> | <b>\$ (37,514)</b> |
| Basic earnings (loss) per share:   |                  |                    |                  |                    |
| Net income (loss), as reported     | \$ 0.14          | \$ (0.77)          | \$ 0.40          | \$ (1.42)          |
| Goodwill amortization              |                  | 0.13               |                  | 0.31               |
| <b>Adjusted net income (loss)</b>  | <b>\$ 0.14</b>   | <b>\$ (0.64)</b>   | <b>\$ 0.40</b>   | <b>\$ (1.11)</b>   |
| Diluted earnings (loss) per share: |                  |                    |                  |                    |
| Net income (loss), as reported     | \$ 0.14          | \$ (0.77)          | \$ 0.40          | \$ (1.42)          |
| Goodwill amortization              |                  | 0.13               |                  | 0.31               |
| <b>Adjusted net income (loss)</b>  | <b>\$ 0.14</b>   | <b>\$ (0.64)</b>   | <b>\$ 0.40</b>   | <b>\$ (1.11)</b>   |

In connection with adopting SFAS No. 142, the Company reassessed the useful lives of intangible assets subject to amortization, consisting only of internally-developed software and purchased software, and determined that they continue to be appropriate. The Company obtained \$11.8 million of software for resale from the acquisition of MDL in fiscal 2001. Amortization of software is computed using the greater of the ratio of current revenues to total estimated revenues expected to be derived from the software or the straight-line method over an estimated useful life of three years. The gross carrying amount and accumulated amortization of software at each balance sheet date are as follows (in thousands):

|                                | June 30,<br>2002 | September 30,<br>2001 |
|--------------------------------|------------------|-----------------------|
|                                | (Restated)       |                       |
| Internally-developed software  | \$ 15,401        | \$ 15,277             |
| Purchased software             | 42,961           | 42,328                |
|                                | 58,362           | 57,605                |
| Less: accumulated amortization | (52,059)         | (45,827)              |
| <b>Software, net</b>           | <b>\$ 6,303</b>  | <b>\$ 11,778</b>      |

In the fourth quarter of fiscal 2001, the Company performed an analysis of the carrying value of the software it acquired as part of the January 2001 MDL acquisition. The review consisted of comparing the unamortized capitalized cost of the MDL software to the net realizable value. The net realizable value was determined by estimating future gross revenues from the MDL software reduced by the estimated future costs of completing and disposing of the software, including the costs of performing maintenance and customer support required to satisfy the Company's responsibility set forth at the time of sale. This analysis indicated an impairment of the software in the amount of \$8.9 million.

Software amortization expense recorded in the three and nine months ended June 30, 2002 was \$1.3 million and \$6.4 million, respectively. Estimated amortization expense for the remainder of fiscal 2002 and each of the five succeeding fiscal years is as follows (in thousands):

|      |          |
|------|----------|
| 2002 | \$ 1,046 |
| 2003 | 3,758    |
| 2004 | 1,403    |
| 2005 | 96       |
| 2006 |          |
| 2007 |          |

## 10. Common Stock and Earnings Per Share

Exchangeable shares and options received by shareholders of MDL that have not yet been converted into TSA Class A Common Stock are included in Class A Common Stock for presentation purposes on the September 30, 2001 and June 30, 2002 condensed consolidated balance sheets, and are included in common shares outstanding for earnings per share ("EPS") computations for the three and nine months ended June 30, 2002 and 2001. Exchangeable shares and MDL options included in Class A Common Stock totaled 431,449 shares and 15,317 options as of June 30, 2002, and 650,146 shares and 20,040 options as of September 30, 2001.

EPS has been computed in accordance with SFAS No. 128, "Earnings Per Share." Basic EPS is calculated by dividing net income available to common stockholders (the numerator) by the weighted average number of common shares outstanding during the period (the denominator). Diluted EPS is computed by dividing net income available to common stockholders (the numerator), by the weighted average number of common shares outstanding, adjusted for the dilutive effect of outstanding dilutive securities (the denominator). The differences between the basic and diluted EPS denominators for the three and nine months ended June 30, 2002, which amounted to approximately 380,000 and 273,000 shares, respectively, were due to the dilutive effect of the Company's outstanding stock options using the treasury stock method. For the three and nine months ended June 30, 2001, basic and diluted EPS are the same, as any outstanding dilutive securities were anti-dilutive due to the net loss from continuing operations. Weighted average shares from stock options of 1,471,000 and 1,617,000 were excluded from the computation of diluted EPS for the three and nine months ended June 30, 2002, respectively, because the exercise prices of the stock options were greater than the average market price of the Company's common shares. For the three and nine months ended June 30, 2001, basic and diluted EPS are the same, as any outstanding dilutive securities were not antidilutive due to the net loss from continuing operations in both periods.

## 11. Comprehensive Income/Loss

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

|  | Three Months Ended June 30, |             | Nine Months Ended June 30, |             |
|--|-----------------------------|-------------|----------------------------|-------------|
|  | 2002                        | 2001        | 2002                       | 2001        |
|  | (Restated)                  | (Restated)  | (Restated)                 | (Restated)  |
| Net income (loss)                        | \$ 5,004                    | \$ (27,109) | \$ 14,212                  | \$ (48,405) |
| Other comprehensive income (loss):       |                             |             |                            |             |
| Foreign currency translation adjustments | (793)                       | 212         | 484                        | (3,168)     |
| Change in unrealized loss on investments | (2,817)                     | 1,537       | (212)                      | 4,197       |
| Comprehensive income (loss)              | \$ 1,394                    | \$ (25,360) | \$ 14,484                  | \$ (47,376) |

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

|                                   | Foreign<br>Currency<br>Translation<br>Adjustments | Unrealized<br>Investment<br>Holding<br>Loss | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|-----------------------------------|---|---|--|
|                                   | (Restated)  | (Restated)                                  | (Restated)   |
| Balance, September 30, 2001       | \$ (6,288)  | \$ (2,597)                                  | \$ (8,885)   |
| Fiscal 2002 year-to-date activity | 484   | (4,881)                                     | (4,397)  |

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|   | Foreign<br>Currency<br>Translation<br>Adjustments | Unrealized<br>Investment<br>Holding<br>Loss | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---|---|---|--|
| Reclassification adjustment for loss included in net loss |   | 4,669                                       | 4,669  |
| Balance, June 30, 2002                                    | \$ (5,804)  | \$ (2,809)                                  | \$ (8,613)   |

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## 12. Segment Information

The Company's products and services are currently organized within three business units: (1) ACI Worldwide, (2) Insession Technologies and (3) IntraNet, Inc. ACI Worldwide products represent the Company's largest product line and include its most mature and well-established applications, which are used primarily by financial institutions, retailers and -e-payment processors. Its products are used to route and process transactions for automated teller machine networks; process transactions from traditional point of sale devices, wireless devices and the Internet; handle PC and phone banking transactions; control fraud and money laundering; process electronic benefit transfer transactions; authorize checks; establish frequent shopper programs; automate settlement, card management and claims processing; and issue and manage multi-functional applications on smart cards. MDL activities are included in the ACI Worldwide business unit. Insession Technologies products facilitate communication, data movement, monitoring of systems and business process automation across computing systems, involving mainframes, distributed computing networks and the Internet. IntraNet, Inc. products offer high-value payments processing, bulk/recurring payments processing, wire room processing, global messaging, integration payments management and continuous link settlement processing.

The Company's chief operating decision makers review business unit financial information, presented on a consolidated basis, accompanied by disaggregated information about revenues and operating income (loss) by business unit. The Company does not track assets by business unit. No single customer accounted for more than 10% of the Company's consolidated revenue during the three and nine months ended June 30, 2002 and 2001. The following are revenues and operating income (loss) for these business units for the periods indicated (in thousands):

|                                 | Three Months Ended June 30, |             | Nine Months Ended June 30, |             |
|---------------------------------|-----------------------------|-------------|----------------------------|-------------|
|                                 | 2002                        | 2001        | 2002                       | 2001        |
|                                 | (Restated)                  | (Restated)  | (Restated)                 | (Restated)  |
| <b>Revenues:</b>                |                             |             |                            |             |
| ACI Worldwide                   | \$ 51,899                   | \$ 49,587   | \$ 158,814                 | \$ 161,595  |
| Insession Technologies          | 7,669                       | 9,553       | 25,687                     | 29,365      |
| IntraNet, Inc.                  | 9,373                       | 8,654       | 27,945                     | 25,151      |
| Health Payment Systems          |                             | 111         |                            | 645         |
|                                 | \$ 68,941                   | \$ 67,905   | \$ 212,446                 | \$ 216,756  |
| <b>Operating income (loss):</b> |                             |             |                            |             |
| ACI Worldwide                   | \$ 9,791                    | \$ (14,197) | \$ 26,729                  | \$ (11,918) |
| Insession Technologies          | 1,771                       | (868)       | 5,010                      | (1,822)     |
| IntraNet, Inc.                  | 993                         | 19          | 2,311                      | (2,143)     |
| Health Payment Systems          |                             | (7,031)     |                            | (9,181)     |
|                                 | \$ 12,555                   | \$ (22,077) | \$ 34,050                  | \$ (25,064) |

Most of the Company's products are sold and supported through distribution networks covering the geographic regions of the Americas, Europe/Middle East/Africa ("EMEA") and Asia/Pacific. The

following are revenues for the periods indicated and long-lived assets at each balance sheet date for these geographic regions (in thousands):

|                           | Three Months Ended June 30, |            | Nine Months Ended June 30, |            |
|---------------------------|-----------------------------|------------|----------------------------|------------|
|                           | 2002                        | 2001       | 2002                       | 2001       |
|                           | (Restated)                  | (Restated) | (Restated)                 | (Restated) |
| <b>Revenues:</b>          |                             |            |                            |            |
| United States             | \$ 26,336                   | \$ 32,264  | \$ 89,629                  | \$ 95,890  |
| Other Americas            | 16,963                      | 8,821      | 37,512                     | 28,643     |
| Total Americas            | 43,299                      | 41,085     | 127,141                    | 124,533    |
| EMEA                      | 18,429                      | 19,118     | 64,178                     | 70,617     |
| Asia/Pacific              | 7,213                       | 7,702      | 21,127                     | 21,606     |
|                           | \$ 68,941                   | \$ 67,905  | \$ 212,446                 | \$ 216,756 |
| <b>Long-lived assets:</b> |                             |            |                            |            |
| United States             |                             | \$ 60,651  | \$ 66,460                  |            |
| Other Americas            |                             | 7,185      | 7,254                      |            |
| Total Americas            |                             | 67,836     | 73,714                     |            |
| EMEA                      |                             | 11,903     | 14,772                     |            |
| Asia/Pacific              |                             | 762        | 938                        |            |
|                           |                             | \$ 80,501  | \$ 89,424                  |            |

### 13. Accounting Pronouncements Issued But Not Yet Effective

In October 2001, the FASB released SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which excludes from the definition of long-lived assets goodwill and other intangibles that are not amortized in accordance with SFAS No. 142. SFAS No. 144 requires long-lived assets disposed of by sale to be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 also expands the reporting of discontinued operations to include components of an entity that have been or will be disposed of rather than limiting such discontinuance to a segment of a business. SFAS No. 144 is effective for the Company's fiscal year ending September 30, 2003. The Company does not anticipate any adjustment to the book value of its long-lived assets as a result of adopting the provisions of SFAS No. 144.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. Management is still evaluating the impact of this statement on the consolidated financial statements of the Company.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.****Overview**

The Company develops, markets, installs and supports a broad line of software products and services primarily focused on facilitating e-payments and e-commerce. In addition to its own products, the Company distributes, or acts as a sales agent for, software developed by third parties. These products and services are used principally by financial institutions, retailers and e-payment processors, both in domestic and international markets. Most of the Company's products are sold and supported through distribution networks covering three geographic regions the Americas, EMEA and Asia/Pacific. Each distribution network has its own sales force and supplements this with reseller and/or distributor networks.

As discussed in Note 3 to the consolidated condensed financial statements, the Company has identified transactions requiring accounting adjustments, which resulted in restatements of the Company's consolidated financial statements for fiscal 2001, 2000, 1999 and 1998, as well as restatements of previously announced quarterly results for the first three quarters of fiscal 2002 and each quarter during fiscal 2001 and 2000.

**Business Units**

The Company's products and services are currently organized within three business units: (1) ACI Worldwide, (2) Insession Technologies and (3) IntraNet, Inc. Most of the Company's products and services are marketed and supported through distribution networks covering three geographic regions: the Americas, Europe/Middle East/Africa ("EMEA") and Asia/Pacific. Each distribution network has its own sales force and supplements this with reseller and/or distributor networks.

The following are revenues and operating income (loss) for these business units for the three and nine months ended June 30, 2002 and 2001 (in thousands):

|                                    | <u>Three Months Ended June 30,</u> |                    | <u>Nine Months Ended June 30,</u> |                    |
|------------------------------------|------------------------------------|--------------------|-----------------------------------|--------------------|
|                                    | <u>2002</u>                        | <u>2001</u>        | <u>2002</u>                       | <u>2001</u>        |
|                                    | <u>(Restated)</u>                  | <u>(Restated)</u>  | <u>(Restated)</u>                 | <u>(Restated)</u>  |
| <b>Revenues:</b>                   |                                    |                    |                                   |                    |
| ACI Worldwide                      | \$ 51,899                          | \$ 49,587          | \$ 158,814                        | \$ 161,595         |
| Insession Technologies             | 7,669                              | 9,553              | 25,687                            | 29,365             |
| IntraNet, Inc.                     | 9,373                              | 8,654              | 27,945                            | 25,151             |
| Health Payment Systems (HHPC only) |                                    | 111                |                                   | 645                |
|                                    | <u>\$ 68,941</u>                   | <u>\$ 67,905</u>   | <u>\$ 212,446</u>                 | <u>\$ 216,756</u>  |
| <b>Operating income (loss):</b>    |                                    |                    |                                   |                    |
| ACI Worldwide                      | \$ 9,791                           | \$ (14,197)        | \$ 26,729                         | \$ (11,918)        |
| Insession Technologies             | 1,771                              | (868)              | 5,010                             | (1,822)            |
| IntraNet, Inc.                     | 993                                | 19                 | 2,311                             | (2,143)            |
| Health Payment Systems (HHPC only) |                                    | (7,031)            |                                   | (9,181)            |
|                                    | <u>\$ 12,555</u>                   | <u>\$ (22,077)</u> | <u>\$ 34,050</u>                  | <u>\$ (25,064)</u> |

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**Results of Operations**

As discussed in further detail in Note 3 to the consolidated financial statements, the Company has restated its consolidated financial statements for the first nine months of fiscal 2002 and 2001. The effects of these restatements are reflected in the following table, which sets

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forth certain financial data and the percentage of total revenues of the Company for the periods indicated (amounts in thousands).:

|  | Three Months Ended June 30, |              |                    |                | Nine Months Ended June 30, |              |                    |                |
|--|-----------------------------|--------------|--------------------|----------------|----------------------------|--------------|--------------------|----------------|
|  | 2002                        |              | 2001               |                | 2002                       |              | 2001               |                |
|  | Amount                      | % of Revenue | Amount             | % of Revenue   | Amount                     | % of Revenue | Amount             | % of Revenue   |
| <b>Revenues:</b>                         |                             |              |                    |                |                            |              |                    |                |
| License fees                             | \$ 38,706                   | 56.1         | \$ 34,547          | 50.9           | \$ 119,152                 | 56.1         | \$ 118,619         | 54.7           |
| Maintenance fees                         | 18,175                      | 26.4         | 16,651             | 24.5           | 55,656                     | 26.2         | 49,256             | 22.7           |
| Services                                 | 12,060                      | 17.5         | 16,707             | 24.6           | 37,638                     | 17.7         | 48,881             | 22.6           |
| <b>Total revenues</b>                    | <b>68,941</b>               | <b>100.0</b> | <b>67,905</b>      | <b>100.0</b>   | <b>212,446</b>             | <b>100.0</b> | <b>216,756</b>     | <b>100.0</b>   |
| <b>Expenses:</b>                         |                             |              |                    |                |                            |              |                    |                |
| Cost of software license fees            | 6,673                       | 9.7          | 11,002             | 16.2           | 23,838                     | 11.2         | 33,547             | 15.5           |
| Cost of maintenance and services         | 14,441                      | 20.9         | 18,606             | 27.4           | 45,885                     | 21.6         | 54,914             | 25.3           |
| Research and development                 | 8,711                       | 12.6         | 10,854             | 16.0           | 26,678                     | 12.6         | 32,357             | 14.9           |
| Selling and marketing                    | 15,033                      | 21.8         | 19,552             | 28.8           | 45,325                     | 21.3         | 57,802             | 26.7           |
| General and administrative               | 11,528                      | 16.7         | 19,066             | 28.1           | 36,670                     | 17.3         | 46,377             | 21.4           |
| Amortization of goodwill                 |                             |              | 4,650              | 6.8            |                            |              | 10,571             | 4.9            |
| Impairment of goodwill                   |                             |              | 6,252              | 9.2            |                            |              | 6,252              | 2.9            |
| <b>Total expenses</b>                    | <b>56,386</b>               | <b>81.8</b>  | <b>89,982</b>      | <b>132.5</b>   | <b>178,396</b>             | <b>84.0</b>  | <b>241,820</b>     | <b>111.6</b>   |
| <b>Operating income (loss)</b>           | <b>12,555</b>               | <b>18.2</b>  | <b>(22,077)</b>    | <b>(32.5)</b>  | <b>34,050</b>              | <b>16.0</b>  | <b>(25,064)</b>    | <b>(11.6)</b>  |
| <b>Other income (expense):</b>           |                             |              |                    |                |                            |              |                    |                |
| Interest income                          | 404                         | 0.6          | 342                | 0.5            | 1,044                      | 0.5          | 1,394              | 0.6            |
| Interest expense                         | (1,313)                     | (1.9)        | (1,685)            | (2.5)          | (4,376)                    | (2.0)        | (5,678)            | (2.6)          |
| <b>Other</b>                             | <b>424</b>                  | <b>0.6</b>   | <b>(2,808)</b>     | <b>(4.1)</b>   | <b>4,022</b>               | <b>1.9</b>   | <b>(17,188)</b>    | <b>(7.9)</b>   |
| <b>Total other income (expense)</b>      | <b>(485)</b>                | <b>(0.7)</b> | <b>(4,151)</b>     | <b>(6.1)</b>   | <b>690</b>                 | <b>0.4</b>   | <b>(21,472)</b>    | <b>(9.9)</b>   |
| <b>Income (loss) before income taxes</b> | <b>12,070</b>               | <b>17.5</b>  | <b>(26,228)</b>    | <b>(38.6)</b>  | <b>34,740</b>              | <b>16.4</b>  | <b>(46,536)</b>    | <b>(21.5)</b>  |
| Income tax benefit (provision)           | (7,066)                     | (10.2)       | (881)              | 1.3            | (20,528)                   | (9.7)        | (1,549)            | 0.7            |
| <b>Net income (loss)</b>                 | <b>\$ 5,004</b>             | <b>7.3%</b>  | <b>\$ (27,109)</b> | <b>(39.9)%</b> | <b>\$ 14,212</b>           | <b>6.7%</b>  | <b>\$ (48,085)</b> | <b>(22.2)%</b> |

**Revenues.** Total revenues for the third quarter of fiscal 2002 increased \$1.0 million, or 1.5%, from the comparable period in fiscal 2001. Total revenues for the first nine months of fiscal 2002 decreased \$4.3 million, or 2.0%, from the comparable period in fiscal 2001. The three-month increase is the result of a \$4.2 million, or 12.0%, increase in software license fees revenue and a \$1.5 million, or 9.2%, increase in maintenance fee revenue, offset by a \$4.7 million, or 27.8%, decrease in services fees revenue. The nine-month decrease is the result of a \$0.5 million, or 0.5%, increase in software license fees revenue and a \$6.4 million, or 13.0%, increase in maintenance fee revenue, offset by a \$11.2 million, or 23.0%, decrease in services revenue. Approximately \$3.7 million of the decrease in

total revenues for first nine months of fiscal 2002 was due to the sale of Regency in February 2002, which was part of the ACI Worldwide business unit.

The increase in software license fee revenues for the third quarter and first nine months of fiscal 2002, as compared to the same periods in fiscal 2001, is primarily the result of an increase in demand for ACI Worldwide's and IntraNet, Inc's products offset by a decrease in demand for Insession Technologies' products.

The increase in demand for ACI Worldwide's products is due to an increase in demand for its Payment Engine products in the Americas region offset by a decrease in demand for these products in the EMEA region. The decrease in EMEA is due to current economic conditions that have caused customers to forecast a slowing of electronic transaction volume growth. As a result, these customers have reduced their information technology budgets and spending commitments.

The decrease in Insession Technologies' software license fees revenues is primarily due to a decrease in demand for its ICE product line as a result of the same economic conditions facing the ACI Worldwide EMEA unit.

The increase in IntraNet, Inc.'s software license fees revenues is primarily the result of migrating its customers from the Digital VAX-based MTS product to the new RS6000-based MTS product.

The increase in maintenance fee revenues is due to the growth in the installed base of the Company's software products in all three of its business units.

The decrease in services revenues for the third quarter and first nine months of fiscal 2002, as compared to the same periods in fiscal 2001, is primarily the result of a decreased demand for technical and project management services. This decreased demand is primarily due to: (1) increased competition in the marketplace by companies that offer services work at lower rates, (2) many larger customers increasing their internal staffs in order to reduce their dependence on external resources and (3) general decreases in worldwide demand for services as a result of depressed economic conditions.

**Expenses.** Total operating expenses for the third quarter of fiscal 2002 decreased \$22.7 million, or 28.7%, as compared to the third quarter of fiscal 2001 (excluding \$4.7 million of goodwill amortization and \$6.3 million of goodwill impairment in the third quarter of fiscal 2001). Total operating expenses for the first nine months of fiscal 2002 decreased \$46.6 million, or 20.7%, as compared to the first nine months of fiscal 2001 (excluding \$10.6 million of goodwill amortization and \$6.3 million of goodwill impairment in the first nine months of fiscal 2001). During the third quarter of fiscal 2001, the Company implemented a restructuring plan whereby it closed or significantly reduced the size of certain product development organizations and geographic sales offices, and made executive management changes. These actions have caused the Company's overall operating expenses to decline. Approximately \$2.5 million of the decrease in operating expenses for the third quarter of fiscal 2002 and \$4.1 million of the decrease in operating expenses for the first nine months of fiscal 2002 was due to the sale of Regency.

Cost of software license fees for the third quarter of fiscal 2002 decreased \$4.3 million, or 39.3%, as compared to the third quarter of fiscal 2001. Cost of software license fees for the first nine months of fiscal 2002 decreased \$9.7 million, or 28.9%, as compared to the first nine months of fiscal 2001. This decrease was due primarily to a decrease in personnel-related expenses, a decrease in MDL software amortization and a decrease in costs associated with the development of the Company's e-commerce product set.

Cost of maintenance and services for the third quarter of fiscal 2002 decreased \$4.2 million, or 22.4%, as compared to the third quarter of fiscal 2001. Cost of maintenance and services for the first nine months of fiscal 2002 decreased \$9.0 million, or 16.4%, as compared to the first nine months of

fiscal 2001. These decreases were the result of fewer staff needed to support the Company's ACI Worldwide and Insession Technologies services-related business.

Research and development ("R&D") costs for the third quarter of fiscal 2002 decreased \$2.1 million, or 19.7%, as compared to the third quarter of fiscal 2001. R&D costs for the first nine months of fiscal 2002 decreased \$5.7 million, or 17.6%, as compared to the first nine months of fiscal 2001. The Company terminated further development of certain products as part of the fiscal 2001 corporate restructuring, causing this

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decrease. R&D costs as a percentage of total revenues for the three and nine months ended June 30, 2002 were 12.6% and 12.6%, respectively, as compared to 16.0% and 14.9%, respectively, for comparable periods of fiscal 2001. The Company capitalizes costs related to certain internally-developed software when the resulting products reach technological feasibility. The Company capitalized \$1.2 million of software development costs in the first nine months of fiscal 2001. The Company did not capitalize software development costs in the nine months ended June 30, 2002 as no new products reached technological feasibility during the nine months.

Selling and marketing costs for the third quarter of fiscal 2002 decreased \$4.5 million, or 23.1%, as compared to the third quarter of fiscal 2001. Selling and marketing costs for the first nine months of fiscal 2002 decreased \$12.5 million, or 21.6%, as compared to the first nine months of fiscal 2001. Selling and marketing costs, excluding restructuring charges in fiscal 2001, as a percentage of total revenues for the first nine months of fiscal 2002 were 21.3% compared to 26.7% for the first nine months of fiscal 2001. These decreases are the result of various cost reduction efforts, including reductions in sales staff and related travel and entertainment costs.

General and administrative costs for the third quarter of fiscal 2002 decreased \$7.5 million, or 39.5%, as compared to the third quarter of fiscal 2001. General and administrative costs for the first nine months of fiscal 2002 decreased \$9.7 million, or 20.9%, as compared to the first nine months of fiscal 2001. These decreases were attributable to reductions in personnel and occupancy costs resulting from the fiscal 2001 corporate restructuring, as well as a decrease in bad debts expense. General and administrative costs for the third quarter of fiscal 2001 included \$5.2 million of costs associated with restructuring activities.

**Other Income and Expense.** Interest income for the first nine months of fiscal 2002 decreased \$0.4 million, or 25.1%, as compared to the first nine months of fiscal 2001. Interest expense decreased \$1.3 million, or 22.9%, as compared to the first nine months of fiscal 2001. The decrease was attributable to line of credit payments that reduced the outstanding balance to zero at June 30, 2002, offset by an increase in interest expense from debt-financing arrangements.

Other (income) expense is comprised of the following items:

|  | Three Months Ended<br>June 30, |            | Nine Months Ended<br>June 30, |            |
|--|--------------------------------|------------|-------------------------------|------------|
|  | 2002                           | 2001       | 2002                          | 2001       |
|  | (Restated)                     | (Restated) | (Restated)                    | (Restated) |
| Other than temporary impairments of marketable equity securities | \$ 1,129                       | \$ 69      | \$ 4,658                      | \$ 8,425   |
| Other than temporary impairments of marketable investments       |                                | 550        |                               | 3,407      |
| Write-off of Insession Technologies, Inc. IPO costs              |                                |            |                               | 1,898      |
| Transfer of HHPC   |                                | 1,154      |                               | 1,154      |
| Gain of sale of Regency  | (475)                          |            | (8,740)                       |            |
| Foreign currency transaction gains and losses                    | (999)                          | 1,022      | 32                            | 2,191      |
| Other  | (79)                           | 13         | 28                            | 113        |
|  | \$ (424)                       | \$ 2,808   | \$ (4,022)                    | \$ 17,188  |

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During fiscal 2002 and 2001, the Company recorded non-operating, non-cash charges to earnings for the other than temporary decline in the market value of its investments in Nestor, Inc., Digital Courier Technologies, Inc. and S1 Corporation.

During the course of fiscal 1998 through fiscal 2000, the Company made investments in various start-up technology companies. During fiscal 2001, after considering current market conditions for technology companies and specific information regarding those companies in which the Company had an ownership interest, the Company determined that the declines in the market values for these investments were other than temporary and charges to earnings for the impairments of these investments were required.

The Company expensed costs of \$1.9 million associated with the cancelled initial public offering ("IPO") of its wholly-owned subsidiary, Insession Technologies, Inc. in fiscal 2001.



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During fiscal 2001, the Company transferred its 70% ownership in HHPC to the minority shareholder. As a result of the transfer, the Company recorded a non-recurring charge of \$1.2 million.

Included in marketable securities and recorded at current market value are 400,561 shares of S1 Corporation ("S1") common stock received related to the Company's sale of Regency. S1's share value has declined between the time the Regency transaction closed and June 30, 2002. Due to the short time the Company has owned these shares, the decline in the value of this investment has been treated as temporary, with unrealized losses included in accumulated other comprehensive loss in the stockholders' equity section of the financial statements. The Company will continue to evaluate its holding in S1 common stock for evidence of "other than temporary" impairment. If the Company determines that there is an impairment which is deemed to be "other than temporary", the Company will be required to record a non-cash charge to income for this impairment. The difference between the value of the S1 shares at the time of the acquisition and the fair market value as of August 9, 2002 is approximately \$3.6 million.

**Income Taxes.** The effective tax rate for the first nine months of fiscal 2002 was approximately 58% as compared to 3% for the first nine months of fiscal 2001. The effective tax rate for the first nine months of fiscal 2002 was primarily impacted by non-recognition of tax benefits for operating losses in certain foreign locations, foreign tax rate differentials and gain on sale of subsidiary. The effective tax rate for the first nine months of fiscal 2001 was primarily impacted by non-recognition of tax benefits for the other than temporary impairments of investments and marketable securities, non-deductible amortization expense associated with acquisitions and non-recognition of tax benefits for operating losses in certain foreign locations.

Each quarter, the Company evaluates its historical operating results as well as its projections for the future to determine the realizability of its deferred tax assets. As of June 30, 2002, the Company has deferred tax assets of \$51.1 million (net of \$60.0 million valuation allowance) and deferred tax liabilities of \$2.9 million. The Company analyzes the recoverability of its net deferred tax assets at each reporting period. Because other factors unforeseen today may affect future taxable income, additional increases to the valuation reserve may be required in future periods.

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### Liquidity and Capital Resources

As of June 30, 2002, the Company's principal sources of liquidity consisted of \$59.1 million in cash and cash equivalents, and available bank lines of credit. The Company has a \$15.0 million bank line of credit agreement with a United States bank secured by certain trade receivables of TSA. This credit agreement provides that the Company must satisfy certain specified earnings, working capital and minimum tangible net worth requirements, as defined, and places restrictions on the Company's ability to, among other things, sell assets, incur debt, pay dividends, participate in mergers and make investments or guarantees. The Company also has a line of credit agreement with a foreign bank in the amount of 3.0 million British Sterling, which translates to approximately \$4.6 million as of June 30, 2002. The foreign credit agreement requires the Company to maintain minimum tangible net worth within the Company's wholly-owned subsidiary, ACI Worldwide (EMEA) Ltd. There are no line of credit borrowings outstanding as of June 30, 2002. As a result of the restatement, the Company will not be in compliance with the loan covenants and therefore the facility will not be available for borrowings. The Company had no line of credit borrowings outstanding as of June 30, 2002. The U.S. credit facility expires in June 2003 and the foreign credit facility expires in October 2002. The Company believes that the foreign line of credit will be renewed at an amount consistent with the current amount.

The Company's net cash flows provided by operating activities for the first nine months of fiscal 2002 amounted to \$43.7 million as compared to \$2.4 million provided by operating activities during the first nine months of fiscal 2001. The improvement in operating cash flows in the first nine months of fiscal 2002 as compared to fiscal 2001 resulted primarily from improved income from continuing operations, excluding depreciation, amortization, and asset impairments. In fiscal 2001, in an effort to enhance upfront software license fee payments, the Company adopted an initiative to pursue up-front payment options for its software licensing rather than extended payment options. Under the up-front payment option, the licensee pays the license fees at the beginning of the software term, whereas under the extended payment option, the licensee pays a portion of the software license fees at the beginning of the software term and the remaining portion over the software license term.

In the past, an important contributor to the cash management program has been the Company's sale of rights to future payment streams under software license arrangements with extended payment terms to financial institutions whereby an interest in its accrued receivables is transferred on a non-recourse basis to third-party financial institutions in exchange for cash. During the first nine months of fiscal 2002 and 2001, the Company generated operating cash flows from the factoring of accrued receivables of \$7.6 million and \$17.0 million, respectively.

The Company's net cash flows provided by investing activities totaled \$2.2 million for the first nine months of fiscal 2002 as compared to net cash flows used in investing activities of \$3.9 million during the comparable period of fiscal 2001. This change is due primarily to proceeds

the Company received from the sale of Regency and note receivable repayments.

The Company's net cash flows used in financing activities totaled \$19.3 million for the first nine months of fiscal 2002 as compared to \$6.4 million provided by financing activities during the comparable period of fiscal 2001. During the first nine months of fiscal 2002, the Company made payments on its bank line of credit facilities of \$12.0 million as compared to \$2.9 million during the comparable period of fiscal 2001. In addition, during the first nine months of fiscal 2002, the Company had net payments on debt-financing agreements of \$8.7 million in 2002 as compared to net receipts of \$7.6 million during the comparable period of 2001.

The Company believes that its existing sources of liquidity, including cash provided by operating activities along with cash generated from its factoring program, will satisfy the Company's projected short and long-term liquidity requirements for the foreseeable future.

### Forward-Looking Statements

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

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

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

The shareholder lawsuits will likely increase the premiums the Company must pay for director and officer liability insurance in the future, and may make this insurance coverage prohibitively expensive or unavailable. Increased premiums for this insurance could materially harm the Company's financial results and cash flows in future periods. The inability to obtain this coverage due to its unavailability or prohibitively expensive premiums would make it more difficult for the Company to retain and attract officers and directors.

The Company has restated certain of its prior financial statements as a result of reevaluating the accounting for several historical transactions. The Company is uncertain whether the class action lawsuits, change in the application of accounting principles and/or the restatement of prior period financial results will have a material adverse effect on the Company's customer, supplier or other business relationships.

As a result of the Company's restatement of its prior consolidated financial statements, it is likely that the Company will be subject to inquiry or investigation by governmental authorities, including the Securities and Exchange Commission. The Securities and Exchange Commission has informally contacted the Company about the restatement process, but the Company has not been notified of a formal inquiry or investigation. In the event that the Company is subject to such an inquiry or investigation, the Company will fully cooperate with such inquiry or investigation. There is risk that such an inquiry or investigation could result in substantial costs and divert management attention and resources, which could

adversely affect the Company's business.

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

No assurance can be given that operating results will not vary. Fluctuations in quarterly operating results may result in volatility in the Company's stock price. The Company's stock price may also be volatile, in part, due to external factors such as announcements by third parties or competitors, inherent volatility in the high-technology sector and changing market conditions in the industry. The Company's stock price may also become volatile, in part, due to the announced change in the application of certain accounting principles and/or the restatement of prior period financial results.

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

The Company will continue to derive a substantial majority of its total revenue from licensing its BASE24 family of software products and providing services and maintenance related to those products. Any reduction in demand for, or increase in competition with respect to, BASE24 products would have a material adverse effect on the Company's financial condition and results of operations.

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

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

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

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

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

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have been no material changes to the Company's market risk for the nine months ended June 30, 2002. See the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001 for additional discussions regarding quantitative and qualitative disclosures about market risk.



3.

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

Date: January 13, 2003

/s/ GREGORY D. DERKACHT

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Gregory D. Derkacht  
*Chief Executive Officer, President  
and Director*

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#### CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Dwight G. Hanson, certify that:

1.

I have reviewed this quarterly report on Form 10-Q/A of Transaction Systems Architects, Inc.;

2.

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

3.

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

Date: January 13, 2003

/s/ DWIGHT G. HANSON

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Dwight G. Hanson,  
*Chief Financial Officer*

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SIGNATURE

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

CERTIFICATION OF CHIEF FINANCIAL OFFICER