

TRANSACTION SYSTEMS ARCHITECTS INC
Form 10-K
December 14, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2005

Commission File Number 0-25346

TRANSACTION SYSTEMS ARCHITECTS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

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

(Address of principal executive offices,
including zip code)

47-0772104

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

(402) 334-5101

(Registrant's telephone number,
including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.005 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes No

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

Yes No

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

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

Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the Company's voting common stock held by non-affiliates of the registrant on March 31, 2005 (the last business day of the registrant's most recently completed second fiscal quarter), based upon the last sale price of the common stock on that date of \$23.15, was \$770,609,815. For purposes of this calculation, executive officers, directors and holders of 10% or more of the outstanding shares of the registrant's common stock are deemed to be affiliates of the registrant.

As of November 30, 2005, there were 37,252,883 shares of the registrant's common stock outstanding (including 2,212 options to purchase shares of the registrant's common stock at an exercise price of one cent per share).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on March 7, 2006 are incorporated by reference in Part III herein. The Company intends to file such Proxy Statement with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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Forward-Looking Statements

This report contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Generally, forward-looking statements do not relate strictly to historical or current facts, and include words or phrases such as management anticipates, the Company believes, the Company anticipates, the Company expects, the Company plans, the Company will, the Company is well positioned, words and phrases of similar impact, and include, but are not limited to, statements regarding future operations, business strategy, business environment and key trends, as well as statements related to expected financial and other benefits from the Company's recent acquisition of S2 Systems, Inc. and those related to the organizational restructuring. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any or all of the forward-looking statements in this document may turn out to be incorrect. They may be based on inaccurate assumptions or may not account for known or unknown risks and uncertainties. Consequently, no forward-looking statement is guaranteed, and the Company's actual future results may vary materially from the results expressed or implied in the Company's forward-looking statements. The cautionary statements in this report expressly qualify all of the Company's forward-looking statements. In addition, the Company is not obligated, and does not intend, to update any of its forward-looking statements at any time unless an update is required by applicable securities laws. Factors that could cause actual results to differ from those expressed or implied in the forward-looking statements include, but are not limited to, those discussed in Item 1A in the section entitled Risk Factors Factors That May Affect the Company's Future Results or the Market Price of the Company's Common Stock.

Trademarks and Service Marks

ACI, the ACI logo, Insession, IntraNet, the IntraNet logo, BASE24, ON/2, OpeN/2, WorkPoint, ENGUARD, Network Express, PaymentWare and CO-ach, among others, are registered trademarks and/or registered service marks of Transaction Systems Architects, Inc., or one of its subsidiaries, in the United States and/or other countries. BASE24-es, WINPAY24, NET24, e-Courier, Commerce Gateway, Smart Chip Manager, Proactive Risk Manager, PRM, ICE, WebGate, SafeTGate, DataWise, Money Transfer System, and iMTS, among others, have pending registrations or are common-law trademarks and/or service marks of Transaction Systems Architects, Inc., or one of its subsidiaries, in the United States and/or other countries. Other parties' marks are the property of their respective owners.

PART I

Item 1. BUSINESS

General

Transaction Systems Architects, Inc., a Delaware corporation, and its subsidiaries (collectively referred to as TSA or the Company) develop, market, install and support a broad line of software products and services primarily focused on facilitating electronic payments (e-payments). 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, Europe/Middle East/Africa (EMEA) and Asia/Pacific. Each distribution network has its own sales force and supplements this with independent reseller and/or distributor networks.

The e-payments market is comprised of debit and credit card issuers, switch interchanges, transaction acquirers, including financial institutions, retailers and e-payment processors, and transaction generators, including automated teller machines (ATM), retail merchant locations, bank

branches, mobile phones and Internet commerce sites. The authentication, authorization, routing and settlement of e-payments is a complex activity due to the large number of locations and variety of sources from which transactions can be generated, the large number of debit and credit card issuers in the market, high transaction volumes, geographically dispersed networks, differing types of authorization, and varied reporting requirements. These activities are typically performed online and are conducted 24 hours a day, seven days a week.

The Company was formed as a Delaware corporation in November 1993 under the name ACI Holding, Inc. and is largely the successor to Applied Communications, Inc. and Applied Communications Inc. Limited, which the Company acquired from Tandem Computers Incorporated on December 31, 1993.

Segment Information

The Company had three operating segments during fiscal 2005 which are referred to throughout this annual report on Form 10-K as business units. These three business units are ACI Worldwide, Insession Technologies and IntraNet Worldwide. Each business unit has its own global sales and support organization. See Note 11 to the consolidated financial statements for additional information related to the Company's business units.

Acquisition

On July 29, 2005, the Company completed the acquisition of substantially all of the assets of S2 Systems, Inc. (S2), headquartered in Dallas, Texas with worldwide operations. S2 offered e-payment processing software similar to the Company's products, primarily those within the ACI Worldwide business unit. S2 licensed its software products in both domestic and international markets, and operated on a wide variety of open and proprietary computing technology, including Microsoft Windows, various Unix-based operating systems and Stratus VOS. S2's clients included financial institutions, retailers, e-payment processors and companies in various other industries. The Company purchased the assets of S2 in an effort to gain access to additional e-payments markets and expand the Company's presence in existing markets, acquire additional e-payments technology, and add personnel with open systems expertise. This acquisition is expected to be accretive in fiscal 2006, based on cost reductions for overlapping functions and the continued marketing and support of S2's products.

Subsequent Event Restructuring of Organization

On October 5, 2005, the Company issued a press release announcing a restructuring of its organization, combining its three business units into one operating unit under the ACI Worldwide name. In examining the Company's market, opportunities and organization, it was decided that creating a single operating unit provides the Company with the best opportunities for focus, operating efficiency and strategic acquisition integration. Based on the reorganization, the Company expects to reduce its operating costs by eliminating redundant management and staff personnel, create a single point of contact for customers across the Company's product lines, and better position itself to offer enterprise-level solutions designed to address the emerging trend for converging e-payments processing. The Company expects annual pre-tax savings from this reorganization to be in the range of \$6.4 million to \$6.7 million.

As a result of its restructuring, the Company incurred \$1.3 million in charges during fiscal 2005. During fiscal 2006, the Company expects to incur an additional \$2.1 million to \$2.8 million in restructuring and other costs to effect the reorganization offset by estimated first-year pre-tax savings of \$5.8 million to \$6.0 million. Estimated first-year savings are lower than estimated future-year savings as certain compensation-related expense reductions are for less than a full year during fiscal 2006. Most of the cash expenditures related to the aforementioned charges occur after September 30, 2005.

The Company anticipates that the restructuring will be substantially completed by the end of fiscal 2006. See Note 7 to the consolidated financial statements for additional information related to the restructuring and resulting charges from this reorganization. All information presented within this annual report on Form 10-K conforms to the business unit structure that was in place throughout fiscal 2005 and as of September 30, 2005.

In addition, as part of the reorganization, the Company announced the formation of a unit called Software as a Service. This unit will offer customers the ability to use the Company's solutions pursuant to a service-based agreement as an alternative to the traditional license-based agreement. The Company plans to offer a range of services focused around its products, including facilities and domain management, to give its customers another option to access the Company's products. The Company may also use this new unit to house transaction-processing company acquisitions, or new partnerships with third-party processors.

ACI Worldwide Business Unit

Products in this business unit represent the Company's largest product line and include its most mature and well-established applications. Products and services in the ACI Worldwide business unit generated approximately 78%, 76% and 74% of the Company's fiscal 2005, 2004 and 2003 revenues, respectively. During fiscal 2005, 2004 and 2003, approximately 70%, 68% and 66%, respectively, of ACI Worldwide revenues resulted from international operations.

ACI Worldwide software products carry transactions from the transaction generators to the acquiring institutions. The software then uses regional or national switches to access the card issuers for approval or denial of the transactions. The software returns messages to the sources, thereby completing the transactions. Electronic payments software may be required to interact with dozens of devices, switch interchanges and communication protocols around the world.

Financial institutions, retailers and e-payment processors use ACI Worldwide software products to:

- Process transactions generated at ATM's
- Process transactions generated at merchant point-of-sale (POS) devices, wireless devices and Internet commerce sites
- Process transactions generated at bank branches
- Detect and prevent debit card fraud, credit card fraud, merchant fraud and money laundering
- Authorize checks written in retail locations
- Establish frequent shopper programs
- Automate transaction settlement, card management and claims processing
- Issue and manage multi-functional applications on smart cards
- Deliver documents via the Internet in a secure manner

The Company offers two primary software product suites within the ACI Worldwide business unit Payment Engines and Payments Management. An overview of major software products within these software product suites follows:

Payment Engines

- **BASE24.** BASE24 is an integrated family of software products marketed to customers operating e-payment networks in the consumer banking and retail industries. The modular architecture of the product enables customers to select the application and system components that are required to operate their networks. BASE24 offers a broad range of features and functions for e-payment processing. BASE24 allows customers to adapt to

changing network needs by supporting over 40 different types of ATM and POS terminals, over 50 interchange interfaces, and various authorization and reporting options. The majority of ACI Worldwide's revenues were derived from licensing the BASE24 family of products and providing related services and maintenance.

The BASE24 product line operates exclusively on Hewlett-Packard (HP) NonStop servers. The HP NonStop parallel-processing environment offers fault-tolerance, linear expandability and distributed processing capabilities. The combination of features offered by BASE24 and the HP NonStop technology are important characteristics in high volume, 24-hour per day e-payment systems.

- **BASE24-es.** BASE24-es is an integrated e-payments processing product that supports similar features as BASE24, but uses a more modern set of technologies and architecture. BASE24-es uses an object-based architecture and languages such as C++ and Java to offer a more flexible, open architecture for the processing of a wide range of card- and account-based e-payment transactions. BASE24-es also uses a scripting language to improve overall transaction processing flexibility and improve time to market for new services, reducing the need for traditional systems modifications. BASE24-es is licensed as a standalone e-payments solution for financial institutions, retailers and e-payment processors, and it represents the future platform to which current BASE24 customers are expected to migrate over time. BASE24-es, which operates on International Business Machines (IBM) zSeries, IBM pSeries, HP NonStop, HP-UX and Sun Solaris servers, provides flexible integration points to other applications and data within enterprises to support 24-hour per day access to money, services and information.
- **WINPAY24.** WINPAY24 is an integrated suite of e-payments products that facilitates a broad range of capabilities, specifically focused on retailers. These capabilities include debit and credit card processing, automated clearing house (ACH) processing, electronic benefits transfer, card issuance and management, check authorization, customer loyalty programs and returned check collection. The WINPAY24 products operate on the Microsoft Windows platform.
- **NET24.** NET24 is a message-oriented middleware product that acts as the layer of software that manages the interface between application software and computer operating systems and helps customers perform network and legacy systems integration projects. The NET24 product operates exclusively on the HP NonStop platform, and represents the middleware product on which BASE24 and BASE-es operate when deployed on HP NonStop servers. NET24 supports process management, network communications, systems configuration and management, and asynchronous messaging.
- **ON/2.** ON/2, a product acquired in the S2 asset acquisition, is an integrated e-payments processing system, exclusively designed for the Stratus VOS operating environment. It authenticates, authorizes, routes and switches transactions generated at ATM's and merchant POS sites.
- **OpeN/2.** OpeN/2, a product acquired in the S2 asset acquisition, is an integrated e-payments processing system, designed for open-systems environments such as Windows, UNIX and Linux. It offers a wide range of e-payments processing capabilities for financial institutions, retailers and e-payment processors.

Payments Management

- **ACI Proactive Risk Manager (PRM).** PRM is a neural network-based fraud detection system designed to help card issuers, merchants, merchant acquirers and financial institutions

combat fraud schemes. The system combines the pattern recognition capability of neural-network transaction scoring with custom risk models of expert rules-based strategies and advanced client/server account management software. PRM operates on IBM zSeries, HP NonStop, Sun Solaris and Microsoft Windows servers. There are six editions of PRM, each of which is tailored for specific industry needs. The six editions are debit, credit, merchant, private label, money laundering detection and enterprise.

- **ACI Payments Management Solutions.** Payments Management solutions are integrated products bringing value-added solutions to information captured during online processing. The suite of products includes management of dispute processing; card management and card statement products; merchant accounting applications; and settlement and reconciliation solutions for online and offline payment processing. The suite also includes a transaction warehouse product that accumulates and stores e-payment transaction information for subsequent transaction inquiry via browser-based presentation allowing transaction monitoring, alerting and executive analysis. These products operate on IBM zSeries, IBM pSeries, HP NonStop, Sun Solaris and Microsoft Windows servers.
- **ACI Card Management System (CMS).** CMS is a complete plastic card system for issuing cards, maintaining account information, tracking card usage and providing customer service. It supports multiple account types and allows online display and modification of pertinent account information. It can be linked with a card authorization system for authorizing debit transactions from ATM and POS devices on the host system. Optionally, CMS can also be linked to a front-end processor for purposes of forwarding file maintenance activity and accepting financial transaction activity.
- **ACI Smart Chip Manager (SCM).** SCM supports the deployment of stored-value and other chip card applications used at smart card-enabled devices. The solution facilitates authorization of funds transfers from existing accounts to cards. It also leverages chip technology to enhance debit/credit card authentication and security. SCM supports Europay/Mastercard/VISA (EMV) standards for debit and credit card processing, and manages the complete lifecycle of the deployment of multi-function chip cards.
- **ACI e-Courier.** ACI e-Courier delivers documents, including bills, alerts, statements and other notifications via the Internet in a secure manner. Customers can receive documents via e-mail or through multiple delivery channels. Documents can be delivered directly to customers e-mail accounts, eliminating the need for retrieval from Web sites. Documents are authentic and private, delivered through built-in industry-standard encryption and digital signature capabilities.

The Company has shifted its sales focus within the ACI Worldwide business unit from more-established products to its newer BASE24-es product and its Payments Management solutions. As a result of this shift to newer products, the Company experiences, absent other factors, an increase in deferred revenues and a corresponding decrease in revenues due to differences in the timing of revenue recognition for the respective products. Revenues under newer products are typically recognized upon acceptance, or first production use by the customer, due to uncertainties surrounding customer acceptance of the product, whereas revenues from mature products, such as BASE24, are generally recognized upon delivery of the product (assuming all other requirements for revenue recognition have been met).

During fiscal 2005, 2004 and 2003, approximately 57%, 59% and 61%, respectively, of the Company's total revenues were derived from licensing the BASE24 product line, which does not include the BASE24-es product, and providing related services and maintenance, and approximately 74%, 77% and 82%, respectively, of ACI Worldwide revenues were derived from licensing the BASE24 product line and providing related services and maintenance.

Insession Technologies Business Unit

Products and services in the Insession Technologies business unit generated approximately 13%, 13% and 12% of the Company's fiscal 2005, 2004 and 2003 revenues, respectively. During fiscal 2005, 2004 and 2003, approximately 39%, 38% and 32%, respectively, of Insession Technologies revenues resulted from international operations. A significant portion of the Insession Technologies business involves the distribution of third-party products in exchange for sales agency fees.

Insession Technologies' market is comprised of large corporations, including financial institutions, telecommunication companies, retailers and other entities, with the need to move business data or financial information and process business transactions electronically over public and private communications networks. These companies typically have many different computing systems that were not originally designed to operate together, and they typically want to preserve their investments in existing mainframe computer systems.

The Insession Technologies business unit markets and supports a suite of infrastructure software products that facilitate communication, data movement, transaction processing, systems monitoring and business process automation across incompatible computing systems that include mainframes, distributed computing networks and the Internet. The primary Company-owned software products within this business unit are ICE, WebGate, SafeTGate, WorkPoint, ENGUARD and DataWise. In addition, as part of the S2 acquisition, the Company acquired a product called Network Express. The primary third-party products distributed within this business unit are GoldenGate, VersaTest, SQLMagic and OpenNET/AO. ICE is a set of networking software products that allow applications running on the HP NonStop server to connect with applications running on, or access data stored on, computers that use the Systems Network Architecture protocol. WebGate is a product suite that allows HP NonStop servers to communicate with applications using web-based technology. SafeTGate is a family of security solutions that work in conjunction with ICE and WebGate. GoldenGate and DataWise are transactional data management products that capture, route, enhance and apply transactions in real time across a wide variety of data sources, most commonly for business continuity and data integration. WorkPoint enables enterprises to model processes over a distributed corporate network. ENGUARD is a proactive monitoring, alarm and dispatching software tool. SQLMagic is designed to improve system and database administration for HP NonStop servers. VersaTest provides online testing, simulation and support utilities for HP NonStop servers. OpenNET/AO provides policy-based management, monitoring and automation designed specifically for continuous availability of HP NonStop servers. Network Express provides network communications and middleware capabilities to support legacy systems integration and connectivity.

In fiscal 2005, 2004 and 2003, approximately 45%, 49% and 55%, respectively, of Insession Technologies revenues were derived from licensing and maintenance of the ICE family of products, and approximately 23%, 20% and 19%, respectively, of Insession Technologies revenues were from the GoldenGate product, primarily in the form of sales agency fees.

IntraNet Worldwide Business Unit

Products and services in the IntraNet Worldwide business unit generated approximately 9%, 11% and 14% of the Company's fiscal 2005, 2004 and 2003 revenues, respectively. During fiscal 2005, 2004 and 2003, approximately 9%, 17% and 25%, respectively, of IntraNet Worldwide revenues resulted from international operations.

IntraNet Worldwide's market is comprised of global, super-regional and regional financial institutions that provide treasury management services to large corporations. In addition, the market includes non-bank financial institutions with the need to conduct their own internal treasury management activities.

Products in this business unit include solutions for high value payments processing, bulk payments processing, global messaging and Continuous Link Settlement processing, and are collectively referred to as PaymentWare. The high value payments processing products, which produce the majority of revenues within the PaymentWare solution set, are used to generate, authorize, route, settle and control high value wire transfer transactions in domestic and international environments. The principal high value payments processing product is international Money Transfer System (iMTS), which is used by financial institutions to facilitate business-to-business e-payments. The iMTS product operates on the IBM eServer pSeries with AIX operating system and communicates over proprietary networks using a variety of messaging formats, including S.W.I.F.T., EBA, Target, Ellips, CEC, RTGSplus, Fedwire, CHIPS and Telex.

The bulk payments processing product is CO-ach, which is used by financial institutions to automatically deposit paychecks and process other ACH transactions. The IntraNet Worldwide business unit no longer actively markets the CO-ach product, and recognized minimal revenues from the product during fiscal 2004. During fiscal 2003, however, approximately 16% of IntraNet Worldwide revenues were derived from licensing of the CO-ach product and providing related services and maintenance, of which approximately \$3.6 million (10% of IntraNet Worldwide revenues) in software license fee revenues resulted from the completion of the final phase of an ACH project with a large European bank.

During fiscal 2005, 2004 and 2003, approximately 91%, 91% and 73%, respectively, of IntraNet Worldwide revenues were derived from licensing of the iMTS product and providing related services and maintenance.

Third-Party Partners

The Company has two major types of third-party partners: strategic alliances where the Company works closely with industry leaders who drive key industry trends and mandates, and product partners, where the Company markets the products of other software companies.

Strategic alliances help the Company add value to its solutions, stay abreast of current market conditions, and extend the Company's reach within its core markets. The following is a list of those companies with whom the Company has strategic alliances:

- Hewlett-Packard Company
- IBM Corporation
- Sun Microsystems, Inc.
- Stratus Technologies
- Microsoft Corporation
- Diebold, Incorporated
- NCR Corporation
- Wincor-Nixdorf
- Visa International
- MasterCard International Incorporated
- Oracle Corporation
- Unisys Corporation

Product partner relationships extend the Company's product portfolio, improve the Company's ability to get its solutions to market rapidly and enhance the Company's ability to deliver market-leading solutions. The Company shares revenues with these product partners based on relative responsibilities for the customer account. The agreements with product partners generally grant the Company the right to distribute or represent their products on a worldwide basis and have a term of several years. The following is a list of currently active product partners:

- GoldenGate, Inc.
- Merlon Software Corporation
- Ascert, LLC
- Gresham Computing, PLC
- Allen Systems Group, Inc.
- ESQ Business Services, Inc.
- ACE Software Solutions, Inc.
- Faircom Corporation
- Paragon Application Systems, Inc.
- Financial Software and Services, PTT
- IBM Corporation
- CB.Net Ltd.
- Side International S.A.
- eClassic Systems

Services

Each business unit offers its customers a wide range of professional services, including analysis, design, development, implementation, integration and training. These business unit services organizations generally perform the majority of the work associated with installing and integrating its software products, rather than relying on third-party systems integrators. The Company's service professionals have extensive experience performing such installation and integration services for clients operating on a range of computing platforms. The Company offers the following types of services for its customers:

- **Technical Services.** The majority of the Company's technical services are provided to customers who have licensed one or more of the Company's software products. Services offered include programming and programming support, day-to-day systems operations, network operations, help desk staffing, quality assurance testing, problem resolution, system design, and performance planning and review. Technical services are typically priced on a weekly basis according to the level of technical expertise required and the duration of the project.
- **Project Management.** The Company offers a Project Management and Implementation Plan (PMIP) which provides customers with a variety of support services, including on-site product integration reviews, project planning, training, site preparation, installation, testing and go-live support, and project management throughout the project life cycle. The Company offers additional services, if required, on a fee basis. PMIPs are offered for a fee that varies based on the level and quantity of included support services.

- **Facilities Management.** The Company offers facilities management services whereby the Company operates a customer's e-payments system for multi-year periods. Pricing and

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payment terms for facilities management services vary on a case-by-case basis giving consideration to the complexity of the facility or system to be managed, the level and quantity of technical services required, and other factors relevant to the facilities management agreement.

Customer Support

Each business unit provides its customers with product support that is available 24 hours a day, seven days a week. If requested by a customer, each business unit's product support group can remotely access that customer's systems on a real-time basis. This allows the product support groups to help diagnose and correct problems to enhance the continuous availability of a customer's business-critical systems. The Company offers its customers both a general maintenance plan and an extended service option.

- **General Maintenance.** After software installation and project completion, the Company provides maintenance services to customers for a monthly fee. Maintenance services include:
 - 24-hour hotline for problem resolution
 - Customer account management support
 - Vendor-required mandates and updates
 - Product documentation
 - Hardware operating system compatibility
 - User group membership
- **Enhanced Support Program.** Under the extended service option, referred to as the Enhanced Support Program, each customer is assigned an experienced technician to work with its system. The technician typically performs functions such as:
 - Install and test software fixes
 - Retrofit customer-specific software modifications (CSMs) into new software releases
 - Answer questions and resolve problems related to CSM code
 - Maintain a detailed CSM history
 - Monitor customer problems on HELP24 hotline database on a priority basis
 - Supply on-site support, available upon demand
 - Perform an annual system review

The Company provides new releases of its products on a periodic basis. New releases of the Company's products, which often contain product enhancements, are typically provided at no additional fee for customers under maintenance agreements. The Company's agreements with its customers permit the Company to charge for substantial product enhancements that are not provided as part of the maintenance agreement.

Competition

The e-payments market is highly competitive and subject to rapid change. Competitive factors affecting the market for the Company's products and services include product features, price, availability of customer support, ease of implementation, product and company reputation, and a

commitment to continued investment in research and development.

The Company's most significant competition comes from in-house information technology departments of existing and potential customers, as well as third-party e-payments processors (some

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of whom are ACI Worldwide customers). The principal third-party software competitors for the ACI Worldwide business unit are eFunds Corporation, Fair Isaac Corporation and S1 Corporation. As markets continue to evolve in the electronic commerce, smart card and secure document delivery sectors, the Company may encounter new competitors to its products and services. As e-payment transaction volumes increase and banks face price competition, third-party processors will constitute stronger competition to the Company's efforts to market its solutions to smaller financial institutions. In the larger financial institution market, the Company believes that third-party processors will be less competitive since large institutions attempt to differentiate their e-payment product offerings from their competition. The primary competitor for the Insession Technologies business unit is Hewlett-Packard Company. In the IntraNet Worldwide business unit, the Company's most significant competition comes from LogicaCMG plc and Fundtech Ltd., and from in-house development units at large financial institutions around the world.

Research and Development

The Company's product development efforts focus on new products and improved versions of existing products. The Company facilitates user group meetings. The user groups are generally organized geographically or by product lines. The groups help the Company determine its product strategy, development plans and aspects of customer support. The Company believes that the timely development of new applications and enhancements is essential to maintain its competitive position in the market.

In developing new products, the Company works closely with its customers and industry leaders to determine requirements. The Company works with device manufacturers, such as Diebold, NCR and Wincor-Nixdorf, to ensure compatibility with the latest ATM technology. The Company works with interchange vendors, such as MasterCard and Visa, to ensure compliance with new regulations or processing mandates. The Company works with computer hardware and software manufacturers, such as Hewlett-Packard Company, IBM Corporation, Microsoft Corporation, Sun Microsystems, Inc. and Stratus Technologies, Inc. to ensure compatibility with new operating system releases and generations of hardware. Customers often provide additional information on requirements and serve as beta-test partners.

The Company's total research and development expenses during fiscal 2005, 2004 and 2003 were \$39.7 million, \$38.0 million and \$35.4 million, or 12.7%, 13.0% and 12.8% of total revenues, respectively.

Customers

The Company provides software products and services to customers in a range of industries worldwide, with financial institutions, retailers and e-payment processors comprising its largest industry segments. As of September 30, 2005, the Company's customers include 111 of the 500 largest banks in the world, as measured by asset size, and 35 of the top 100 retailers in the United States, as measured by revenue. As of September 30, 2005, the Company had 820 customers in 84 countries on six continents. Of this total, 452 are in the Americas region, 204 are in the EMEA region and 164 are in the Asia/Pacific region. No single customer accounted for more than 10% of the Company's consolidated revenues during fiscal 2005, 2004 or 2003.

Selling and Marketing

The Company's primary method of distribution is direct sales by employees assigned to specific regions or specific products. In addition, the Company uses distributors and sales agents to supplement its direct sales force in countries where business practices or customs make it appropriate, or where it is more economical to do so. The Company generates a majority of its sales

leads through existing relationships with vendors, direct marketing programs, customers and prospects, or through referrals.

Key international distributors and sales agents for the Company include:

- PTESA (Colombia)
- PTESAVEN (Venezuela)
- North Data (Uruguay)
- Hewlett-Packard Peru (Peru)
- P.T. Abhimata Persada (Indonesia)
- Financial Software and Systems, Ltd. (India)
- HP Philippines (Philippines)
- Korea Computer, Inc. (Korea)
- Sahaviriya Infortech Computers Co. Ltd (Thailand)
- Syscom (Taiwan and China)

The Company distributes the products of other vendors as complements to its existing product lines. The Company is typically responsible for sales and marketing. The Company's agreements with these vendors generally provide for revenue sharing based on relative responsibilities.

In addition to its principal sales office in Omaha, the Company has sales offices located outside the United States in Athens, Bahrain, Buenos Aires, Dubai Internet City, Gouda, Johannesburg, Madrid, Melbourne, Mexico City, Milan, Moscow, Naples, Paris, Riyadh, Sao Paulo, Seoul, Singapore, Sydney, Tokyo, Toronto, Watford and Wiesbaden.

Proprietary Rights and Licenses

The Company relies on a combination of trade secret and copyright laws, license agreements, contractual provisions and confidentiality agreements to protect its proprietary rights. The Company distributes its software products under software license agreements that typically grant customers nonexclusive licenses to use the products. Use of the software products is usually restricted to designated computers, specified locations and/or specified capacity, and is subject to terms and conditions prohibiting unauthorized reproduction or transfer of the software products. The Company also seeks to protect the source code of its software as a trade secret and as a copyrighted work. Despite these precautions, there can be no assurance that misappropriation of the Company's software products and technology will not occur.

In addition to its own products, the Company distributes, or acts as a sales agent for, software developed by third parties. However, the Company typically is not involved in the development process used by these third parties. The Company's rights to such third party products and the associated intellectual property rights are limited by the terms of the contractual agreement between the Company and the respective third party.

Although the Company believes that its owned and licensed intellectual property rights do not infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not assert infringement claims against the Company. Further, there can be no assurance that intellectual property protection will be available for the Company's products in all foreign countries.

Like many companies in the electronic commerce and other high-tech industries, third parties have in the past and may in the future assert claims or initiate litigation related to patent, copyright, trademark or other intellectual property rights to business processes, technologies and related

standards that are relevant to the Company and its customers. These assertions have increased over time as a result of the general increase in patent claims assertions, particularly in the United States. Third parties may also claim that the third party's intellectual property rights are being infringed by the Company's customers' use of a business process method which utilizes the Company's products in conjunction with other products, which could result in indemnification claims against the Company by customers. Any claim against the Company, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays, require the Company to enter into royalty or licensing agreements or pay amounts in settlement, or require the Company to develop alternative non-infringing technology. A successful claim by a third party of intellectual property infringement by the Company or one of its customers could compel the Company to enter into costly royalty or license agreements, pay significant damages or even stop selling certain products and incur additional costs to develop alternative non-infringing technology.

Employees

As of September 30, 2005, the Company had a total of 1,674 employees of whom 1,224 were in the ACI Worldwide business unit, 156 were in the Insession Technologies business unit and 134 were in the IntraNet Worldwide business unit. Additionally, 160 employees were in corporate administration positions, including executive management, legal, human resources, finance, information systems, investor relations, internal audit and facility operations, providing supporting services to each of the three business units.

None of the Company's employees are subject to a collective bargaining agreement. The Company believes that its relations with its employees are good.

Available Information

The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act), are available free of charge on the Company's website at www.tsainc.com as soon as reasonably practicable after the Company files such information electronically with the Securities and Exchange Commission (SEC). The information found on the Company's website is not part of this or any other report the Company files with or furnishes to the SEC. The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Item 1A. RISK FACTORS

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

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

- In October 2005, the Company announced a restructuring of its organization based on its decision that combining its three business units into a single operating unit provides the Company with the best opportunities for focus, operating efficiency and strategic acquisition integration. This restructuring of the Company's three business units into one operating unit is

subject to a number of risks, including but not limited to diversion of management time and resources, disruption of the Company's service to customers, and lack of familiarity with markets or products. There can be no assurance that the Company's expectation of savings as a result of the restructuring will be achieved.

- The Company's backlog estimate is based on management's assessment of the customer contracts that exist as of the date the estimate is made. All software license fees, maintenance fees and services specified in executed contracts are included in the backlog estimate to the extent that the Company believes that recognition of the related revenues will occur within the next 12 months. A number of factors could result in actual revenues being less than the amounts reflected in backlog. The Company's customers may attempt to renegotiate or terminate their contracts for a number of reasons, including mergers, changes in their financial condition, or general changes in economic conditions in their industries or geographic locations, or the Company may experience delays in the development or delivery of products or services specified in customer contracts. Accordingly, there can be no assurance that contracts included in recurring or non-recurring backlog will actually generate the specified revenues or that the actual revenues will be generated within a 12-month period.
- In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment. The Company adopted SFAS No. 123R beginning October 1, 2005. This revised accounting standard requires the Company to record noncash compensation expense related to payment for employee services by equity awards, such as stock options, in their financial statements. The adoption of SFAS No. 123R and the noncash expense that is being recorded had a negative impact on the Company's results of operations and reduced its earnings per share. Future grants of stock options and other equity awards, if any, would also increase the noncash expenses the Company must record, which would negatively impact the Company's results of operations and earnings per share.
- The Company is subject to income taxes, as well as non-income based taxes, in the United States and in various foreign jurisdictions. Significant judgment is required in determining the Company's worldwide provision for income taxes and other tax liabilities. In addition, the Company has benefited from, and expects to continue to benefit from, implemented tax-saving strategies. The Company believes that implemented tax-saving strategies comply with applicable tax law. However, taxing authorities could disagree with the Company's positions. If the taxing authorities decided to challenge any of the Company's tax positions and were successful in such challenges, the Company's financial condition and/or results of operations could be adversely affected.

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

- The Company's business is concentrated in the financial services industry, making it susceptible to a downturn in that industry. Consolidation activity among financial institutions has increased in recent years. There are several potential negative effects of increased consolidation activity. Continuing consolidation of financial institutions may result in a fewer number of existing and potential customers for the Company's products and services. Consolidation of two of the Company's customers could result in reduced revenues if the combined entity were to negotiate greater volume discounts or discontinue use of certain of the

Company's products. Additionally, if a non-customer and a customer combine and the combined entity in turn decided to forego future use of the Company's products, the Company's revenues would decline.

- No assurance can be given that operating results will not vary from quarter to quarter, and any fluctuations in quarterly operating results may result in volatility in the Company's stock price. The Company's stock price may also be volatile, in part, due to external factors such as announcements by third parties or competitors, inherent volatility in the technology sector and changing market conditions in the software industry. The Company's stock price may also become volatile, in part, due to developments in the various lawsuits filed against the Company relating to its restatement of prior consolidated financial results.
- The Company has historically derived a majority of its revenues from international operations and anticipates continuing to do so, and is thereby subject to risks of conducting international operations. One of the principal risks associated with international operations is potentially adverse movements of foreign currency exchange rates. The Company's exposures resulting from fluctuations in foreign currency exchange rates may change over time as the Company's business evolves and could have an adverse impact on the Company's financial condition and/or results of operations. The Company has not entered into any derivative instruments or hedging contracts to reduce exposure to adverse foreign currency changes. Other potential risks associated with the Company's international operations include difficulties in staffing and management, reliance on independent distributors, longer payment cycles, potentially unfavorable changes to foreign tax rules, compliance with foreign regulatory requirements, reduced protection of intellectual property rights, variability of foreign economic conditions, changing restrictions imposed by U.S. export laws, and general economic and political conditions in the countries where the Company sells its products and services.
- Acts of terrorism or acts of war may cause death or injury to our employees, as well as damage or disruption to the Company's facilities, customers, partners, distributors or resellers, which could have a material adverse effect on the Company's business, financial condition and/or results of operations. Such conflicts may also cause damage or disruption to transportation and communication systems and to our ability to manage logistics in such environments, including delivery of products.
- The Company's BASE24-es product is a significant new product for the Company. The Company's business, financial condition and/or results of operations could be materially adversely affected if the Company is unable to generate adequate sales of BASE24-es, if market acceptance of BASE24-es is delayed, or if the Company is unable to successfully deploy BASE24-es in production environments.
- Historically, a majority of the Company's total revenues resulted from licensing its BASE24 product line and providing related services and maintenance. Any reduction in demand for, or increase in competition with respect to, the BASE24 product line could have a material adverse effect on the Company's financial condition and/or results of operations.
- The Company has historically derived a substantial portion of its revenues from licensing of software products that operate on Hewlett-Packard (HP) NonStop servers. Any reduction in demand for HP NonStop servers, or any change in strategy by HP related to support of its NonStop servers, could have a material adverse effect on the Company's financial condition and/or results of operations.
- The Company's software products are complex. They may contain undetected errors or failures when first introduced or as new versions are released. This may result in loss of, or delay in, market acceptance of the Company's products and a corresponding loss of sales or revenues.

Customers depend upon the Company's products for mission-critical applications. Software product errors or failures could subject the Company to product liability, as well as performance and warranty claims, which could materially adversely affect the Company's business, financial condition and/or results of operations.

- The Company may acquire new products and services or enhance existing products and services through acquisitions of other companies, product lines, technologies and personnel, or through investments in other companies. During fiscal 2005, the Company acquired substantially all of the assets of S2 Systems, Inc. Any acquisition or investment, including the acquisition of S2, is subject to a number of risks. Such risks may include diversion of management time and resources, disruption of the Company's ongoing business, difficulties in integrating acquisitions, dilution to existing stockholders if the Company's common stock is issued in consideration for an acquisition or investment, incurring or assuming indebtedness or other liabilities in connection with an acquisition, lack of familiarity with new markets, and difficulties in supporting new product lines. The Company's failure to successfully manage acquisitions or investments, or successfully integrate acquisitions, including the acquisition of S2, could have a material adverse effect on the Company's business, financial condition and/or results of operations. Correspondingly, the Company's expectations related to the accretive nature of the S2 acquisition could be inaccurate.
- To protect its proprietary rights, the Company relies on a combination of contractual provisions, including customer licenses that restrict use of the Company's products, confidentiality agreements and procedures, and trade secret and copyright laws. Despite such efforts, the Company may not be able to adequately protect its proprietary rights, or the Company's competitors may independently develop similar technology, duplicate products or design around any rights the Company believes to be proprietary. This may be particularly true in countries other than the United States because some foreign laws do not protect proprietary rights to the same extent as certain laws of the United States. Any failure or inability of the Company to protect its proprietary rights could materially adversely affect the Company.
- There has been a substantial amount of litigation in the software industry regarding intellectual property rights. Third parties have in the past and may in the future assert claims or initiate litigation related to exclusive patent, copyright, trademark or other intellectual property rights to business processes, technologies and related standards that are relevant to the Company and its customers. These assertions have increased over time as a result of the general increase in patent claims assertions, particularly in the United States. Because of the existence of a large number of patents in the electronic commerce field, the secrecy of some pending patents and the rapid issuance of new patents, it is not economical or even possible to determine in advance whether a product or any of its components infringes or will infringe on the patent rights of others.

The Company anticipates that software product developers and providers of electronic commerce solutions could increasingly be subject to infringement claims, and third parties may claim that the Company's present and future products infringe upon their intellectual property rights. Third parties may also claim, and the Company is aware that at least two parties have claimed on several occasions, that the third party's intellectual property rights are being infringed by the Company's customers' use of a business process method which utilizes the Company's products in conjunction with other products, which could result in indemnification claims against the Company by customers. Claims against the Company's customers related to the Company's products, whether or not meritorious, could harm the Company's reputation and reduce demand for its products. Where indemnification claims are made by customers, resistance even to unmeritorious claims could damage the customer relationship. Any claim

against the Company, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays, require the Company to enter into royalty or licensing agreements or pay amounts in settlement, or require the Company to develop alternative non-infringing technology. A successful claim by a third party of intellectual property infringement by the Company or one of its customers could compel the Company to enter into costly royalty or license agreements, pay significant damages, or stop selling certain products and incur additional costs to develop alternative non-infringing technology. Royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all, which could adversely affect the Company's business.

The Company's exposure to risks associated with the use of intellectual property may be increased for third party products distributed by the Company or as a result of acquisitions since the Company has a lower level of visibility, if any, into the development process with respect to such third party products and acquired technology or the care taken to safeguard against infringement risks.

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

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

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

- From time to time, the Company is involved in litigation relating to claims arising out of its operations. Any claims, with or without merit, could be time-consuming and result in costly litigation. Failure to successfully defend against these claims could result in a material adverse effect on the Company's business, financial condition, results of operations and/or cash flows.

- New accounting standards, revised interpretations or guidance regarding existing standards, or changes in the Company's business practices could result in future changes to the Company's revenue recognition or other accounting policies. These changes could have a material adverse effect on the Company's business, financial condition and/or results of operations.
- The Company is required to assess its internal controls over financial reporting on an ongoing basis. If the Company cannot maintain and execute adequate internal control over financial reporting, or implement new or improved controls that provide reasonable assurance of the reliability of the its internal control over financial reporting, it may suffer harm to its reputation, fail to meet its regulatory reporting requirements on a timely basis, or be unable to properly report on its financial condition and/or results of operations, which could adversely affect the Company's business and/or market price of its securities. Additionally, the inherent limitations of internal control over financial reporting may not prevent or detect misstatements or fraud, regardless of the adequacy of those controls.

Item 2. PROPERTIES

The Company leases office space in Omaha, Nebraska, for its corporate headquarters, principal product development group, and sales and support groups for the Americas. The leases for these facilities expire in fiscal 2008. The Company's EMEA headquarters are located in Watford, England. The leases for the Watford facilities expire in fiscal 2009 and 2011, with the principal lease expiring in fiscal 2009. The Company's Asia/Pacific headquarters are located in Sydney, Australia, with the lease for this facility expiring in fiscal 2006. Personnel within each of the Company's business units use office space in each of these locations. The Company leases office space in the Boston metropolitan area, which houses business unit management, development, delivery, marketing and other support functions, for its IntraNet Worldwide business unit. The Company also leases office space in numerous other locations in the United States and in many other countries.

The Company believes that its current facilities are adequate for its present and short-term foreseeable needs and that additional suitable space will be available as required. The Company also believes that it will be able to renew leases as they expire or secure alternate suitable space. See Note 15 to the consolidated financial statements for additional information regarding the Company's obligations under its facilities leases.

Item 3. LEGAL PROCEEDINGS

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. Other than as described below under the sub-sections entitled Class Action Litigation, Derivative Litigation and Federal Derivative Litigation, the Company is not currently a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, would be likely to have a material adverse effect on the Company's financial condition or results of operations.

Class Action Litigation. In November 2002, two class action complaints were filed in the U.S. District Court for the District of Nebraska (the Court) against the Company and certain individuals alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Pursuant to a Court order, the two complaints were consolidated as Desert Orchid Partners v. Transaction Systems Architects, Inc., et al., with Genesee County Employees Retirement System designated as lead plaintiff. The Second Amended Consolidated Class Action Complaint (the Consolidated Complaint) alleges that during the purported class period, the Company and the named defendants misrepresented the Company's historical financial condition, results of operations and its future prospects, and failed to disclose facts that could have indicated an impending decline in the Company's revenues. The Consolidated Complaint seeks unspecified damages, interest, fees, costs and rescission. The class period alleged in the Consolidated Complaint is January 21, 1999

through November 18, 2002. The Company and the individual defendants filed a motion to dismiss the Consolidated Complaint. In response, on December 15, 2003, the Court dismissed, without prejudice, Gregory Derkacht, the Company's former President and Chief Executive Officer, as a defendant, but denied the motion to dismiss with respect to the remaining defendants, including the Company. On February 6, 2004, the Court entered a mediation reference order requiring the parties to mediate before a private mediator. The parties held a mediation session on March 18, 2004, which did not result in a settlement of the matter. On July 1, 2004, lead plaintiff filed a motion for class certification wherein, for the first time, lead plaintiff sought to add an additional class representative, Roger M. Wally. On August 20, 2004, defendants filed their opposition to the motion. On March 22, 2005, the Court issued an order certifying the class. Discovery is continuing.

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

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

The Company filed a motion to dismiss in the Naito matter on February 14, 2003 and a motion to dismiss in the Russiello matter on February 21, 2003. A hearing was scheduled on those motions for March 14, 2003. Just prior to that date, plaintiffs' counsel requested that the derivative lawsuits be stayed pending a determination of an anticipated motion to dismiss to be filed in the class action lawsuits. The Company, by and through its counsel, agreed to that stay, pending a ruling on the motion to dismiss. No other defendants were ever served and no discovery was ever commenced.

Federal Derivative Litigation. On January 27, 2005, Norbert C. Abel, as Trustee on behalf of the Norbert C. Abel Trust, instituted a derivative action in federal District Court for the District of Nebraska against Gregory Derkacht, Seymour F. Harlan (sic), Roger K. Alexander, Jim D. Kever, Frank R. Sanchez, Jim Kerr, Charles E. Noell, III, Gregory J. Duman, Larry G. Fendley, William E. Fisher, Dwight Hanson, and David C. Russell, as individual defendants, and the Company, as nominal defendant (the Abel matter). The suit was a stockholder derivative action that contained virtually the same factual allegations as contained in the class action litigation described above. In addition, the suit alleged that the individual defendants breached fiduciary duties by failing to establish and maintain adequate accounting controls and, as to defendants Fisher, Russell, Duman, Fendley, Hanson and Derkacht, for

breach of fiduciary duty and unjust enrichment based upon their receipt of salaries, bonuses and stock options based upon the Company's alleged false performance. The Complaint alleged Jim Kerr was a director of TSA. However, TSA has no record of an individual by the name of Jim Kerr ever having served as a director. On July 11, 2005, the individual defendants filed a motion to dismiss the complaint with prejudice, in which the Company joined on August 17, 2005. At the request of plaintiff's counsel, on September 12, 2005, plaintiff and defendants filed a joint motion to dismiss the case. On September 14, 2005, the Court dismissed the case in its entirety with prejudice.

Other Litigation Plus Tecnologia

On August 31, 2001, Plus Tecnologia (Plus) filed a complaint in Circuit Court in the Sixth Judicial Circuit for Pinellas County, Florida against Transaction Systems Architects, Inc., ACI Worldwide Inc., ACI Worldwide (Florida) Inc. n/k/a ACI Worldwide (Texas) LLC, Open Systems Solutions, Inc., the predecessor to ACI Worldwide (Florida) Inc., and ACI Worldwide (Mexico) S.A. de C.V. The complaint alleges breach of contract, breach of non-disclosure agreements, tortious interference with prospective business relationships of Plus and an additional cause of concert of action. Plus has claimed various items of damages, including lost profits in excess of \$30,000,000, interest, fees, costs and punitive damages. The Company believes that the complaint is without merit and is vigorously defending this lawsuit. On April 21, 2005, the Company filed a Motion for Sanctions seeking to dismiss the complaint with prejudice and to impose sanctions against Plus alleging that Plus has engaged in improper, unfair, unethical and fraudulent actions. The Company cannot predict the outcome of this matter; however, at this time, the Company's management does not believe that the outcome will have a material adverse impact on the Company's financial condition, results of operations or cash flows.

On December 16, 2004, ACI Worldwide Inc. filed a complaint in the Nebraska District Court for Douglas County against certain individuals, including the principal officer of Plus, alleging, in part, fraud, deceptive trade practices and violations of consumer protection laws in connection with the license agreement between ACI Worldwide Inc. and Plus.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2005.

Item 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

As of November 30, 2005, the Company's executive officers, their ages and their positions were as follows:

Name	Age	Position
Philip G. Heasley	56	President and Chief Executive Officer
Gregory D. Derkacht	58	Executive Vice President
Mark R. Vipond	46	Senior Vice President and President ACI Worldwide, Product Group
Anthony J. Parkinson	53	Senior Vice President and President ACI Worldwide, Americas Channel
David R. Bankhead	56	Senior Vice President, Chief Financial Officer and Treasurer
Dennis P. Byrnes	42	Senior Vice President, General Counsel and Secretary
David N. Morem	48	Senior Vice President and Chief Administrative Officer
Donald P. Newman	41	Vice President, Chief Accounting Officer and Controller

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Mr. Heasley serves as President and Chief Executive Officer. Mr. Heasley joined the Company in March 2005. Prior to joining the Company, Mr. Heasley was Chairman and CEO of PayPower LLC, an acquisition and consulting firm specializing in financial services and payment services from October 2003 to March 2005. Mr. Heasley served as Chairman and CEO of First USA Bank from October 2000 to September 2003.

Mr. Derkacht serves as Executive Vice President. Mr. Derkacht joined the Company in January 2002 and served as its President and Chief Executive Officer from January 2002 until March 2005. Prior to joining the Company, Mr. Derkacht was President of e-PROFILE, a wholly-owned Internet banking subsidiary of Sanchez Computer Associates, Inc. from January 2000 to February 2001.

Mr. Vipond serves as a Senior Vice President with primary responsibility for the ACI Worldwide Product Group. Mr. Vipond joined the Company in 1985 and has served in various capacities, including President of the ACI Worldwide business unit, National Sales Manager of ACI Canada, Vice President of the Emerging Technologies and Network Systems divisions, President of the USSI, Inc. operating unit, and Senior Vice President of Consumer Banking.

Mr. Parkinson serves as a Senior Vice President with primary responsibility for the Americas Channel of ACI Worldwide. Mr. Parkinson joined the Company in 1984 and has served in various capacities, including President of the Insession Technologies business unit, Director of Sales and Marketing for EMEA, Vice President of the Emerging Technologies and Network Systems divisions, Vice President of System Solutions Sales, and Senior Vice President of the Enterprise Solutions Group.

Mr. Bankhead serves as Senior Vice President, Chief Financial Officer and Treasurer. Mr. Bankhead joined the Company in July 2003. Prior to joining the Company, Mr. Bankhead was Vice President and Chief Financial Officer of Alysis Technologies, Inc. from February 2000 to May 2001.

Mr. Byrnes serves as Senior Vice President, General Counsel and Secretary. Mr. Byrnes joined the Company in June 2003. Mr. Byrnes served as First Vice President and Senior Counsel for Bank One Corporation from October 2002 to June 2003. From April 1996 to November 2001, Mr. Byrnes was employed by Sterling Commerce, Inc., an electronic commerce software and services company, where he served in several capacities, including as that company's general counsel.

Mr. Morem joined the Company in June 2005 and serves as Senior Vice President and Chief Administrative Officer. Prior to joining the Company, Mr. Morem was Chief Operating Officer of GE Home Finance from November 2003 to April 2005. From January 2003 to November 2003, Mr. Morem served as Senior Vice President of Credit Risk Management for Bank One Card Services. Mr. Morem worked as a Consultant for Acquisition Consulting from July 2001 to December 2002. From September 1978 to June 2001, Mr. Morem served in several capacities with US Bancorp, serving as its Senior Vice President of Credit Operations / Credit Risk Management from 1995 to 2001.

Mr. Newman joined the Company in January 2004 and serves as Chief Accounting Officer, Vice President and Controller. Mr. Newman served as Executive Director of the Worldwide Financial Planning and Analysis group of NRG Energy, Inc. (NRG), an independent electric power generation company, from November 2002 to December 2003. From October 1999 to October 2002, Mr. Newman served as the chief financial executive of NRG's largest operating division.

Other Information

Mr. Dennis D. Jorgensen was an executive officer of the Company throughout fiscal 2005, serving as Senior Vice President with primary responsibility for the IntraNet Worldwide business unit. On October 5, 2005, the Company announced a restructuring of its organization. Coincident with the restructuring, the Company announced Mr. Jorgensen's retirement, which was effective October 21, 2005.

PART II**Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

The Company's common stock trades on The NASDAQ Stock Market under the symbol TSAI. The following table sets forth, for the periods indicated, the high and low sale prices of the Company's common stock as reported by The NASDAQ Stock Market:

Fiscal Year Ended September 30, 2005	High	Low
Fourth quarter	\$ 28.95	\$ 24.44
Third quarter	25.15	20.28
Second quarter	24.34	17.55
First quarter	21.58	15.22
Fiscal Year Ended September 30, 2004		
Fourth quarter	21.64	14.65
Third quarter	25.47	18.12
Second quarter	25.08	17.60
First quarter	23.30	16.97

As of November 30, 2005, there were 260 holders of record of the Common Stock. A substantially greater number of holders of the Company's common stock are street name or beneficial holders, whose shares are held of record by banks, brokers and other financial institutions.

Dividends

The Company has never declared nor paid cash dividends on its common stock. The Company does not presently anticipate paying cash dividends. However, any future determination relating to its dividend policy will be made at the discretion of its Board of Directors and will depend upon the financial condition, capital requirements and earnings of the Company, as well as other factors the Board of Directors may deem relevant.

Issuer Purchases of Equity Securities

The following table provides information regarding the Company's repurchases of its common stock during the fourth quarter of fiscal 2005:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
July 1 through July 31, 2005	36,374	\$ 24.85	36,374	\$ 49,820,000
August 1 through August 31, 2005	43,000	\$ 24.65	43,000	\$ 48,760,000
September 1 through September 30, 2005	76,780	\$ 27.32	76,780	\$ 46,662,000
Total (1)				