TRANSACTION SYSTEMS ARCHITECTS INC
Form 10-K
May 11, 2007

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, 2006

Commission File Number 0-25346

TRANSACTION SYSTEMS ARCHITECTS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**47-0772104**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
120 Broadway, Suite 3350 **New York, New York 10271**	**(646) 348-6700**
(Address of principal executive offices, including zip code)	(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 o No þ

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

Yes o No þ

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 o No þ

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. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Yes o No þ

The aggregate market value of the Company s voting common stock held by non-affiliates of the registrant on March 31, 2007 (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 $31.21, was $1,196,191,786. 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 May 8, 2007, there were 37,161,165 shares of the registrant s common stock outstanding (including 1,270 options to purchase shares of the registrant s common stock at an exercise price of one cent per share).

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Explanatory Note

In this Annual Report on Form 10-K, which we refer to as our 2006 10-K, we are restating prior period financial statements to reflect additional stock-based compensation expense relating to stock option grants made during the period from fiscal years 1995 through 2002. The effects of these restatements are reflected in our consolidated balance sheet as of September 30, 2005 and each of the quarters in fiscal 2005 and fiscal 2006, and related consolidated statements of operations, stockholders equity and cash flows for each of the fiscal years ended September 30, 2005 and 2004 and each of the quarters in fiscal years 2005 and 2006. Additionally, we have included in Item 6. Selected Financial Data, restated financial information for the fiscal years 2002 through 2005, and in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, restated financial information for fiscal years 2004 and 2005. See Note 2, Restatement of Consolidated Financial Statements, of the Notes to our Consolidated Financial Statements for a detailed discussion of the effect of the restatements. This Explanatory Note explains the circumstances giving rise to the restatements and amendments.

We initiated a review of our historical stock option granting practices following general public reports about option granting issues among public companies. Our review was self-initiated and not prompted by any inquiry from a regulatory body, a whistleblower or other source. On October 27, 2006, we publicly announced the voluntary internal review. The review was conducted by the audit committee of our board of directors with the assistance of special independent counsel and forensic accountants. On March 16, 2007, we publicly announced the completion and key results of the review, which are set forth in our Form 8-K filed with the Securities and Exchange Commission (SEC) on that date.

The independent counsel and its forensic accountants reviewed approximately 80,000 pages of paper files and approximately 30,000 e-mails and electronic files, conducted interviews with current and former members of the board s compensation committee, current and former directors, officers, employees and advisors, reviewed and tested the company s option database, and also conducted an extensive review and analysis of facts and circumstances related to all stock option grants made from the date of our Initial Public Offering (IPO) in 1995 through fiscal 2006.

The review indicated that our stock option granting practices from fiscal 1995 through fiscal 2002 were subject to control weaknesses and other deficiencies. As a result, a number of measurement date errors occurred in this period. Prior to 2003, based upon formal board action and informal consultations with board members, the CEO and CFO believed they had been delegated authority to carry out the employee option granting process. Generally, the CEO approved the numbers of options and recipients, while the CFO set the grant date, which determined the exercise price. In many instances, it appears that the CFO used hindsight and often looked for the lowest stock price in the quarter in selecting the grant date. The stock options granted by management were, at times, the subject of later board action. Although all options granted to the CEO and CFO were approved by the board of directors or compensation committee, the record of board action for other employee grants was inconsistent and incomplete; however, the review indicated no evidence of intentional misconduct on the part of the participants in this process, and these practices ended in 2002 (although adjustments to subsequent period financial statements are required for periods after 2002 under applicable accounting rules). In addition, based upon the turnover in executive management after 2002, the review concluded that our current CEO, CFO and general counsel were not involved in the option granting practices requiring the restatement of our prior period financial statements.

We previously applied Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related Interpretations and provided the required pro forma disclosures under Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, through the fiscal year ended September 30, 2005. Under APB Opinion No. 25,

non-cash, stock based compensation expense should have been recognized for any option for which the exercise price was below the market price on the applicable measurement date. Because a number of our options had exercise prices below the market prices on applicable measurement dates, there should have been charges for these options under APB Opinion No. 25 equal to the number of option shares, multiplied by the difference between the exercise prices and the market prices on the actual grant dates. These charges should have been amortized over the service periods of the options. Additionally, we determined that certain grants made prior to June 1, 2001 totaling 191,000 stock options should be accounted for under the variable accounting method. Under that method, charges and benefits are taken each reporting period to reflect increases and decreases in the fair value of the stock over the option exercise price until the stock option is exercised or otherwise cancelled.

Based on the records and findings of our voluntary review of historical stock option granting practices, we determined that we should restate our prior period financial statements to correct the measurement date errors and to account for any compensation charges associated with revised measurement dates. We applied the accounting standards then in effect to determine, for every grant, the proper compensation expense. Accordingly, we are recording in this report additional non-cash compensation expense and related tax effects over the relevant option service periods consistent with then-controlling accounting principles during such periods to the extent that the prices of our common stock on the actual measurement dates were higher than the prices on the previously recorded dates. The non-cash compensation expense in aggregate was $18.8 million, pretax, substantially all of which is recorded and recognized from fiscal 1995 through fiscal 2001.

As concluded by the audit committee in its independent review, our stock option granting practices since late fiscal 2003 do not have similar control deficiencies of the historical stock option granting practices that gave rise to the restatement. For example, under the current practices, our board of directors and its compensation committee only act through meetings, and not by unanimous written consent, to take formal corporate action; our board and its compensation committee approve options contemporaneously on the date of grant, and not on a ratification basis; and only the compensation committee, not management, approves employee options and sets the terms. Commencing in fiscal 2004, our stock option administration function is supervised by our legal department. Additionally, our stock option granting processes are documented and tested as part of our Sarbanes-Oxley compliance programs.

Upon the completion of the review, our audit committee made certain recommendations to ensure that we continue to follow good corporate practices in connection with stock option administration, including (1) amendments to charters of the compensation committee and the nominating and corporate governance committee to reflect existing and possible additional measures regarding each committee s role in our option granting process, (2) requiring written reports to our board on existing options procedures, (3) evaluating, with the assistance of outside advisors, additional best practices and other improvements in our option granting procedures, and (4) conducting training for all employees involved in the option granting process. We are in process of evaluating and implementing these recommendations.

For more information and discussion of foregoing matters, see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations; Note 2 of the Notes to our Consolidated Financial Statements; and Item 9A, Controls and Procedures.

We do not intend to specifically amend any of our previously filed Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q for the periods affected by the restatements. Instead, we are restating the consolidated financial statements and selected financial data in this 2006 10-K. Accordingly, the consolidated financial statements and related financial information contained in previously filed financial reports should no longer be relied upon.

The expense allocated to fiscal years 2003 through 2005 reflect the amortization of compensation expense and charges under the variable accounting method associated with options granted in fiscal year 2002 and prior years. The incremental effect of recognizing additional stock-based compensation expense is as follows (in thousands):

	Pre-Tax Expense	**After Tax Expense**
1995	$ 55	$ 40
1996	73	61
1997	2,660	1,657
1998	1,652	1,061
1999	1,897	1,320
2000	4,343	2,994
2001	6,497	5,094
2002	461	316
2003	392	268
Total 1995 2003 Impact	18,030	12,811
2004	520	379
2005	204	147
2006		
Total for all fiscal periods	$ 18,754	$ 13,337

These additional charges do not affect previously reported revenue or cash provided by operating activities. As a result of these additional charges, we are restating our consolidated balance sheet as of September 30, 2005 and each of the quarters in fiscal 2005 and fiscal 2006, and related consolidated statements of operations, stockholders equity and cash flows for each of the fiscal years ended September 30, 2005 and 2004 and each of the quarters in fiscal year 2005 appear in this 2006 10-K.

This 2006 10-K also reflects the restatement of Selected Financial Data in Item 6 for the fiscal years ended September 30, 2005, 2004, 2003 and 2002, and Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 for the fiscal years ended September 30, 2005 and 2004.

We are also restating the pro forma expense under SFAS No. 123 in Note 14, Stock-Based Compensation Plans of the Notes to Consolidated Financial Statements of this 2006 10-K to reflect the impact of these adjustments for the fiscal years ended September 30, 2005 and 2004.

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, we believe, we anticipate, we expect, we plan, we will, we are well positioned, and words and phrases of similar impact, and include, but are n 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 our recent acquisition of eps Electronic Payment Systems AG and P&H Solutions, Inc. and those related to our organizational restructuring activities. 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 our actual

future results may vary materially from the results expressed or implied in our forward-looking statements. The cautionary statements in this report expressly qualify all of our forward-looking statements. In addition, we are not obligated, and do not intend, to update any of our 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 Our Future Results or The Market Price of Our Common Stock.

Trademarks and Service Marks

ACI, the ACI logo, BASE24, ON/2, OpeN/2, 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-eps, ACI Retail Commerce Server, NET24, Commerce Gateway, Smart Chip Manager, Proactive Risk Manager, PRM, ICE, WebGate, SafeTGate, DataWise, ACI Wholesale Payment System, ACI Money Transfer System or MTS, ACI Enterprise Banker, ACI Payments Manager, ACI Card Management System, ACI Dispute Management System, and WPS, 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 our subsidiaries (collectively referred to as TSA the Company, we, us or ou develop, market, install and support a broad line of software products and services primarily focused on facilitating electronic payments. In addition to our own products, we distribute, or act as a sales agent for, software developed by third parties. These products and services are used principally by financial institutions, retailers and electronic payment processors, both in domestic and international markets. Most of our 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. Our products are marketed under the ACI Worldwide brand.

The electronic payments market is comprised of financial institutions, retailers, third-party electronic payment processors, payment associations, switch interchanges and a wide range of transaction-generating endpoints, including automated teller machines (ATM), retail merchant locations, bank branches, mobile phones, corporations and Internet commerce sites. The authentication, authorization, switching, settlement and reconciliation of electronic 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 participants 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 often conducted 24 hours a day, seven days a week.

Transaction Systems Architects, Inc. 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

Historically, we reported our results in three operating segments: ACI Worldwide, Insession Technologies and Intranet Worldwide. On October 5, 2005, during the first quarter of fiscal 2006, we announced a restructuring of our organization, combining products and services within these three business units into one operating unit under the ACI Worldwide name. In examining our market, opportunities and organization, management decided that combining the business units products and services provides us with a better structure to facilitate operating efficiency and strategic acquisition integration.

As a result of this restructuring, our chief operating decision maker, together with other senior management personnel, currently focus their review of consolidated financial information and the allocation of resources based on reporting of operating results, including revenues and operating income, for the geographic regions of the Americas, EMEA and Asia/Pacific. Our products are sold and supported through distribution networks covering these three geographic regions, with each distribution network having its own sales force. We supplement our distribution networks with independent reseller and/or distributor arrangements. As such, we have concluded that our three geographic regions are our reportable operating segments.

Financial information for fiscal 2005 and fiscal 2004 has been conformed to reflect the segment change. See Note 13, Segment Information in the Notes to Consolidated Financial Statements for further detail.

Acquisitions

On July 29, 2005, we acquired the business of S2 Systems, Inc. (S2) through the acquisition of substantially all of its assets. S2 was a global provider of electronic payments and network connectivity software, and it primarily served financial services and retail customers, which were homogeneous and complementary to our target markets. In addition to its U.S. operations, S2 had a significant presence in the Middle East, Europe, Latin America and the Asia/Pacific region, generating nearly half of its revenue from international markets.

On May 31, 2006, we acquired the outstanding shares of eps Electronic Payment Systems AG (eps), headquartered in Frankfurt, Germany. The acquisition of eps occurred in two closings. The initial closing occurred on May 31, 2006, and the second closing occurred on October 31, 2006. eps, with operations in Germany, Romania, the United Kingdom and other European locations, offers electronic payment and complementary solutions focused largely in the German market. The acquisition of eps will provide us additional opportunities to sell our value added solutions, such as Proactive Risk Manager and Smart Chip Manager, into the German marketplace, as well as to sell eps testing and dispute management solutions into markets beyond Germany. In addition, eps presence in Romania will help us more rapidly develop our global offshore development and support capabilities. The aggregate purchase price for eps was $30.4 million, which was comprised of cash payments of $19.1 million, 330,827 shares of common stock valued at $11.1 million, and direct costs of the acquisition.

On September 29, 2006, we completed the acquisition of P&H Solutions, Inc. (P&H). P&H is a leading provider of enterprise business banking solutions and complements our existing business. The aggregate purchase price for P&H, including direct costs of the acquisition, was $133.7 million, net of $20.2 million of cash acquired, approximately $73.3 million of which was financed by the Credit Agreement described in Note 8, Debt in the Notes to Consolidated Financial Statements, with the remaining cash of $60.4 million derived from the sale of investments. The acquisition of P&H will extend our wholesale payments solutions suite, provide us with an Application Software Provider (ASP)-based offering and allow us to distribute P&H s solutions into international markets through our global distribution channel.

On February 7, 2007 we acquired Visual Web Solutions, Inc. Visual Web markets trade finance and web-based cash management solutions, primarily to financial institutions in the Asia/Pacific region.

On April 2, 2007, we acquired Stratasoft Sdn. Bhd. Stratasoft is a Kuala Lumpur based company focused on the provision of mainframe-based payments systems to the Malaysian market. Prior to the acquisition, Stratasoft had been a distributor of our OCM24 product within the Malaysian market since 1995.

Assets of Businesses Transferred Under Contractual Arrangements

On September 29, 2006, we completed the sale of the eCourier and Workpoint product lines to PlaNet Group, Inc. We have retained rights to distribute these products as components of our electronic payments solutions. See Note 17, Assets of Businesses Transferred Under Contractual Arrangements in the Notes to Consolidated Financial Statements for further detail.

Products

ACI Worldwide software products perform a wide range of functions designed to facilitate electronic payments. Generally, our products address three primary market segments:

- Retail banking, including debit and credit card issuers
- Wholesale banking, including corporate cash management and treasury management operations
- Retailers

In addition, we market our solutions to third-party electronic payment processors, who serve all three of the above market segments. We also offer solutions that are not industry-specific, and are used by customers in a wide range of industries to address needs for systems connectivity, data synchronization, testing and simulation and systems monitoring.

We offer five primary software product lines:

- Retail Payment Engines
- Risk Management
- Payments Management
- Wholesale Payments
- Cross Industry Solutions

See Note 13, Segment Information in the Notes to Consolidated Financial Statements for further detail.

An overview of major software products within these software product lines follows:

Retail Payment Engines

Generally, our Retail Payment Engines are designed to route electronic payment transactions from transaction generators to the acquiring institutions so that they can be authorized for payment. The software often interfaces with regional or national switches to access the account-holding financial institution or card issuer for approval or denial of the transactions (authorization). The software returns messages to the original transaction generator (e.g. an ATM), thereby completing the transactions. Depending on how the software is configured, it can perform all of the functions

necessary to authenticate, authorize, route and settle an electronic payment transaction, or it can interact with other systems to ensure that these functions are performed. Electronic payments software may be required to interact with dozens of devices, switch interchanges and communication protocols around the world. We currently offer a range of retail payment engine solutions, as follows:

- **BASE24.** BASE24 is an integrated family of software products marketed to customers operating electronic payment networks in the retail 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 electronic 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 authentication, 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 electronic payment systems.

- **BASE24-eps (formerly called BASE24-es).** BASE24-eps is an integrated electronic payments processing product that supports similar features as BASE24, but uses a more modern set of technologies and architecture. BASE24-eps 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 electronic payment transactions. BASE24-eps 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-eps is licensed as a standalone electronic payments solution for financial institutions, retailers and electronic payment processors, and it represents the future platform to which current BASE24, ON/2, OpeN/2, and AS/X customers are expected to migrate over time. BASE24-eps, 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.

- **ACI Retail Commerce Server (formerly called WINPAY24).** The Retail Commerce Server is an integrated suite of electronic 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 Retail Commerce Server product line operates on open systems technologies such as Microsoft Windows, UNIX and Linux, with most of the current installations deployed 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 BASE24-eps 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 electronic 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 electronic payments processing system, designed for open-systems environments such as Windows, UNIX and Linux. It offers a wide range of electronic payments processing capabilities for financial institutions, retailers and electronic payment processors.

- **AS/X.** AS/X, a product acquired in the eps acquisition, is an integrated electronic payments processing system designed for open-systems environments such as UNIX. It supports a wide range of electronic payments processing capabilities for financial institutions and electronic payment processors in Germany and Switzerland.

During fiscal 2006, 2005 and 2004, approximately 57%, 57% and 59%, respectively, of our total revenues were derived from licensing the BASE24 product line, which does not include the BASE24-eps product.

Risk 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.

Payments Management

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 Payments Manager (PM).** PM is an integrated, modular software solution that automates the processing, settlement and reconciliation of electronic transactions, as well as provides plastic card issuance and account management. Payments Manager s primary focus is to enable efficient back-office management through cost reductions and streamlined daily operations. The solution accesses a central transaction database that can be updated in batch or near-real time from the payment engine. Payments Manager integrates all transaction and processing data for transaction analysis, settlement processing, and card account and customer data. Application functions are accessed via the ACI desktop environment, an integrated graphical presentation and development tool.

- **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. In addition, SCM has been deployed in government identification environments, providing the core operating environment for multi-function electronic identification cards.

- **ACI Dispute Management System (DMS).** DMS provides issuers the ability to work retail discrepancies caused by processing errors, disputes, charge backs and fraud. Failure to comply with card association rules or government regulations can result in the loss of chargeback and representation rights or fines. ACI s DMS runs through a Case Management work flow tracking disputes with debit and credit cards, EBT transactions, electronic banking and billpay, ACH, and network adjustments. An audit trail of operator actions ensures that staff members follow procedures. DMS also provides an interface to institutions general ledger and transaction processing systems, which saves time and ensures better audit trails. Because electronic banking disputes may be subject to governmental and internal audits, DMS stores all due dates and required customer notifications to maintain a complete historical file on each claim. Furthermore, users can create specific compliance reports.

Wholesale Payments

Our wholesale payments solutions are focused on 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.

Our wholesale payments solutions include high value payments processing, bulk payments processing, global messaging and Continuous Link Settlement processing, and are collectively referred to as the ACI Money Transfer System (MTS). The high value payments processing products, which produce the majority of revenues within the MTS solution set, are used to generate, authorize, route, settle and control high value wire transfer transactions in domestic and international environments. The MTS product operates on IBM p-Series servers using the 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.

ACI Enterprise Banker, acquired in the P&H acquisition, is a comprehensive internet-based business banking product for financial institutions, including banks, brokerage firms and credit units and can be flexibly packaged for small, medium and large business customers. This product provides these customers with electronic payment initiation capability, information reporting, and numerous other payment related services that allow the business customer to manage all its banking needs via the Internet.

Cross Industry Solutions

The market for our Cross Industry Solutions 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.

Our Cross Industry Solutions comprise 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 suite are ICE, WebGate, SafeTGate, ENGUARD and DataWise. In addition, as part of the S2 acquisition, we acquired a product called Network Express and as part of the eps acquisition, we acquired a product called Asset. 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. ENGUARD is a proactive monitoring, alarm and dispatching software tool. Network Express provides network communications and middleware capabilities to support legacy systems integration and connectivity. Asset is a simulation and testing tool that allows companies involved in electronic payments to simulate devices and transactions, and perform application testing. 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.

Third-Party Partners

We have two major types of third-party partners: strategic alliances where we work closely with industry leaders who drive key industry trends and mandates, and product partners, where we market or embed the products of other software companies.

Strategic alliances help us add value to our solutions, stay abreast of current market conditions, and extend our reach within our core markets. The following is a list of those companies with whom we have 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

Product partner relationships extend our product portfolio, improve our ability to get our solutions to market rapidly and enhance our ability to deliver market-leading solutions. We share revenues with these product partners based on relative responsibilities for the customer account. The agreements with product partners generally grant us 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
- RDM Corporation
- Intuit, Inc.
- Vasco Data Security
- NCR Corporation

- Online Banking Solutions
- Metatomix Inc.
- PlaNet Group, Inc.

Services

We offer our customers a wide range of professional services, including analysis, design, development, implementation, integration and training. We have service professionals within each of our three geographic regions who generally perform the majority of the work associated with installing and integrating our software products, rather than relying on third-party systems integrators. Our

service professionals have extensive experience performing such installation and integration services for clients operating on a range of computing platforms. We offer the following types of services for our customers:

- **Technical Services.** The majority of our technical services are provided to customers who have licensed one or more of our 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.** We offer 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. We offer 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.** We offer facilities management services whereby we operate a customer s electronic payments system for multi-year periods. Pricing and 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.

- **ACI On Demand.** We will offer a service whereby we will host a customer s system for them as opposed to the customer licensing and installing the system on their own site. We offer several of our solutions in this manner, including our retail and wholesale payment engines, risk management and online banking products. Each customer gets a unique image of the system that can be tailored to meet their needs. The product will generally be located on facilities and hardware that we provide. Pricing and payment terms will depend on which solutions the customer requires and their transaction volumes. Generally, customers will be required to commit to a minimum contract of three to five years.

Customer Support

We provide our customers with product support that is available 24 hours a day, seven days a week. If requested by a customer, the 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. We offer our customers both a general maintenance plan and an extended service option.

- **General Maintenance.** After software installation and project completion, we provide 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

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- **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

We provide new releases of our products on a periodic basis. New releases of our products, which often contain product enhancements, are typically provided at no additional fee for customers under maintenance agreements. Agreements with our customers permit us to charge for substantial product enhancements that are not provided as part of the maintenance agreement.

Competition

The electronic payments market is highly competitive and subject to rapid change. Competitive factors affecting the market for our 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.

Our competitors vary by product line, geography and market segment. Generally, our most significant competition comes from in-house information technology departments of existing and potential customers, as well as third-party electronic payments processors (some of whom are ACI Worldwide customers). Many of these companies are significantly larger than us and have significantly greater financial, technical and marketing resources. Key competitors by product line include the following:

Retail Payment Engines

The principal third-party software competitors for the Retail Payment Engines product line are eFunds Corporation and S1 Corporation, as well as small, regionally-focused companies such as OpenWay, Distra Pty Ltd. and CTL, Ltd. Primary electronic payment processing competitors in this area include global entities such as First Data Corporation, Fiserv, Metavante, Euronet, Visa and Mastercard, as well as regional or country-specific processors.

Risk Management

Principal competitors for the Risk Management product line are Fair Isaac, Retail Decisions, Mantas, SearchSpace, Americas Software and Visa DPS, as well as dozens of smaller companies focused on niches of this segment such as Anti-Money Laundering.

Payments Management

Principal competitors for our Payments Management product line are eFunds, Baldwin Hacket and Meeks, Inc. and Bell ID.

Wholesale Payments

Principal competitors for our Wholesale Payments product line are Fundtech Ltd, LogicaCMG plc, Tieto Enator, Clear2Pay, Dovetail, Bankserv, SWIFT, Intuit Corporation, S1 Corporation, Metavante, Checkfree and a number of core banking processors.

Cross Industry Solutions

The principal competitor for our Cross Industry Solutions product line is Hewlett-Packard Co, as well as dozens of small, niche-focused competitors.

As markets continue to evolve in the electronic payments, risk management and smartcard sectors, we may encounter new competitors for our products and services. As electronic payment transaction volumes increase and banks face price competition, third-party processors may become stronger competition in our efforts to market our solutions to smaller financial institutions. In the larger financial institution market, we believe that third-party processors may be less competitive since large institutions attempt to differentiate their electronic payment product offerings from their competition, and are more likely to develop or continue to support their own internally-developed solutions or use third-party software packages such as those offered by us.

Research and Development

Our product development efforts focus on new products and improved versions of existing products. We facilitate user group meetings. The user groups are generally organized geographically or by product lines. The groups help us determine our product strategy, development plans and aspects of customer support. We believe that the timely development of new applications and enhancements is essential to maintain our competitive position in the market.

In developing new products, we work closely with our customers and industry leaders to determine requirements. We work with device manufacturers, such as Diebold, NCR and Wincor-Nixdorf, to ensure compatibility with the latest ATM technology. We work with interchange vendors, such as MasterCard and Visa, to ensure compliance with new regulations or processing mandates. We work 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.

Our total research and development expenses during fiscal 2006, 2005 and 2004 were $40.8 million, $39.7 million and $38.0 million, or 11.7%, 12.7% and 13.0% of total revenues, respectively.

We develop new and enhanced versions of products in a number of product development locations. We have recently added product development facilities in Romania and Ireland to augment existing development staff and in anticipation of future personnel resource requirements to meet the needs of our product development efforts. We currently anticipate that these facilities will expanded to between 100 and 200 personnel within the next two years.

Customers

We provide software products and services to customers in a range of industries worldwide, with financial institutions, retailers and e-payment processors comprising our largest industry segments. As of September 30, 2006, our customers include 116 of the 500 largest banks in the world, as measured by asset size, and 33 of the top 100 retailers in the United States, as measured by revenue. As of September 30, 2006, we had 822 customers in 83 countries on six continents. Of this total, 452 are in the Americas region, 212 are in the EMEA region and 158 are in the Asia/Pacific region. No single

customer accounted for more than 10% of our consolidated revenues during fiscal 2006, 2005 or 2004.

Selling and Marketing

Our primary method of distribution is direct sales by employees assigned to specific regions or specific products. In addition, we use distributors and sales agents to supplement our direct sales force in countries where business practices or customs make it appropriate, or where it is more economical to do so. We generate a majority of our sales leads through existing relationships with vendors, direct marketing programs, customers and prospects, or through referrals.

Key international distributors and sales agents for us during fiscal 2006 included:

- 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)
- DataOne Asia Co. Ltd (Thailand)
- Syscom (Taiwan and China)
- Stratasoft Sdn Bhd (Malaysia)

To date during fiscal 2007, we have terminated three of the above distribution relationships and established a direct distribution model in certain markets in the Asia-Pacific region. In January 2007, we gave notice of our intent to terminate certain distribution agreements with Financial Software and Systems, Ltd. which will become effective in July 2007.

In addition, in connection with the establishment of a direct presence in the Philippine Islands, we terminated our distribution relationship with HP Philippines effective March 31, 2007. Also, on April 2, 2007, we acquired Stratasoft Sdn. Bhd., a distributor of our OCM 24 product within the Malaysian market, and effective upon the acquisition, our distribution relationship with Stratasoft ceased.

We distribute the products of other vendors as complements to our existing product lines. We are typically responsible for the sales and marketing of the vendor s products, and agreements with these vendors generally provide for revenue sharing based on relative responsibilities.

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

Proprietary Rights and Licenses

We rely on a combination of trade secret and copyright laws, license agreements, contractual provisions and confidentiality agreements to protect our proprietary rights. We distribute our 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. We also seek to protect the source code of our software as a trade secret and as a copyrighted work. Despite these precautions, there can be no assurance that misappropriation of our software products and technology will not occur.

In addition to our own products, we distribute, or act as a sales agent for, software developed by third parties. However, we typically are not involved in the development process used by these third parties. Our rights to those third-party products and the associated intellectual property rights are limited by the terms of the contractual agreement between us and the respective third-party.

Although we believe that our 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 us. Further, there can be no assurance that intellectual property protection will be available for our 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 us and our 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 our customers use of a business process method which utilizes products in conjunction with other products, which could result in indemnification claims against us by customers. Any claim against us, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays, require us to enter into royalty or licensing agreements or pay amounts in settlement, or require us to develop alternative non-infringing technology. We could also be required to defend or indemnify our customers against such claims. A successful claim by a third-party of intellectual property infringement by us or one of our customers could compel us 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.

Foreign Operations

We derive a significant portion of our revenues from foreign operations. For detail of revenue by geographic region see Note 13, Segment Information in the Notes to Consolidated Financial Statements.

Employees

As of September 30, 2006, we had a total of approximately 1,960 employees of whom 403 were in the Americas channel, 82 were in the Asia/Pacific channel, and 329 were in the EMEA channel. In addition, we had 905 employees in product development functions and 241 employees 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 regions.

None of our employees are subject to a collective bargaining agreement. We believe that relations with our employees are good.

Available Information

Our 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 our website at *www.tsainc.com* as soon as reasonably practicable after we file such information electronically with the Securities and Exchange Commission (SEC). As disclosed in our Current Report on Form 8-K filed October 27, 2006, our Board of Directors concluded, after consultation with management, that based on the Audit Committee s preliminary findings related to our historic stock option granting practices, our financial statements and all earnings releases and similar communications issued by us relating to financial periods since 1995 should not be relied upon. The restated financial statements included within this fiscal 2006 10-K address all of the issues related to these prior financial periods. The information found on our website is not part of this or any other report we file with or furnish to the SEC. The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, Room 1580, 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 Our Future Results or the Market Price of Our Common Stock

We operate in a rapidly changing technological and economic environment that presents numerous risks. Many of these risks are beyond our control and are driven by factors that often cannot be predicted. The following discussion highlights some of these risks.

We may face risks related to the restatement of our financial statements.

We restated our consolidated financial statements, as more fully discussed in Item 8. Financial Statements and Supplementary Data under Note 2 Restatement of Consolidated Financial Statements to the consolidated financial statements included in this 2006 10-K. We restated our consolidated balance sheet as of September 30, 2005, and our consolidated statements of operations, our consolidated statements of stockholders equity and comprehensive income and consolidated statements of cash flows for each of the years ended September 30, 2005 and 2004. In addition, we restated selected financial data for fiscal years 2004, 2003 and 2002.

Companies that restate their financial statements sometimes face litigation claims and/or SEC proceedings following such a restatement. We could face monetary judgments, penalties or other sanctions which could adversely affect our financial condition and could cause our stock price to decline. Additionally, we estimate that we will incur approximately $6 million to $7 million of expense, primarily professional fees, related to the historical stock option review and management analysis, substantially all of which was or will be expensed in the first ($3 million) and second ($3 million) quarters of fiscal 2007, and the remainder thereafter. In addition to the approximate $6 million to $7 million of expense incurred, we estimate that we will incur cash outlays of approximately $7 million for the settlement of vested options that optionees are or were unable to exercise due to the option review and which would otherwise expire. The actual amount incurred with respect to the settlement of options depends on the number of options that will expire prior to our becoming current on our quarterly financial statements as well as the stock price used to calculate any settlement amount. In most cases, these settlements reduced our additional paid-in capital balance and reduced our fully diluted outstanding shares. While we do not believe that the restatements or the costs of the review have or will have a material adverse effect on our financial condition or future prospects, no assurance can be given that additional expense or legal claims will not arise in the future.

While we believe we have made appropriate judgments in determining the financial and tax impacts of the historic stock option practices, we cannot provide assurance that the SEC or the IRS will agree with the manner in which we have accounted for and reported, or not reported, the financial and tax impacts. If the SEC or the IRS disagrees with our financial or tax adjustments, and such disagreement results in material changes to our historical financial statements, we may have to further restate our prior financial statements, amend prior filings with the SEC, or take other actions not currently contemplated.

We have postponed the filing of this 2006 10-K and of our Quarterly Reports on Form 10-Q for the quarters ended December 31, 2006 and March 31, 2007. As a result, we do not have current financial information available and will be limited in our ability to register our securities for offer and sale until we are deemed a current filer with the SEC.

As a result of the delayed filing of this 2006 10-K and our Quarterly Reports on Form 10-Q for the quarters ended December 31, 2006 and March 31, 2007, there is a lack of current publicly-available financial information concerning us. Investors must evaluate whether to purchase or sell our securities in light of the lack of current financial information. We are not in a position to predict at what date all current financial information will be available. Accordingly, any investment in our securities involves a high degree of risk. Until all current periodic reports and financial statements are filed, we will be precluded from registering our securities with the SEC for offer and sale. This precludes us from raising debt or equity financing in the public markets and will limit our ability to use stock options and other equity-based awards to attract, retain and provide incentives to our employees.

As a result of the delays in filing our periodic reports, we required certain extensions in connection with the delivery of financial statements and related matters under financing arrangements for our bank debt. We may require additional extensions in the future, and failure to obtain the necessary extensions could have a material adverse effect on our business, liquidity and financial condition.

We have previously obtained certain extensions and may continue to seek additional extensions under our credit facilities. The extensions waive certain potential breaches of representations and covenants under our credit facilities and establish the extended deadlines for the delivery of certain financial reports. Our current extensions under the credit facilities expire on May 16, 2007 for our annual financial statements, the extensions for our quarterly financial statements for the fiscal quarter ended December 31, 2006 expire the earlier of (i) 45 days after delivery of our annual financial statements, and (ii) July 2, 2007, and the extensions for our quarterly financial statements for the fiscal quarter ended March 31, 2007 expire the earlier of (i) 45 days after delivery of our quarterly financial statements for the fiscal quarter ended December 31, 2006, and (ii) August 16, 2007 and the extensions for our quarterly financial statements for the fiscal quarter ended June 30, 2007 expire the earlier of (i) 45 days after delivery of our quarterly financial statements for the fiscal quarter ended March 31, 2007, and (ii) October 1, 2007. We may not be able to deliver our quarterly financial statements for the first quarter of fiscal 2007 within the extended period, which may impact whether we are able to file our quarterly results for the second and third quarters of fiscal 2007 within the extended periods, and therefore, we may seek additional extensions under the credit facilities.

Under our credit facilities, the lenders have the right to notify us if they believe we have breached a representation or covenant under the operative debt instruments and may declare an event of default. If one or more notices of default were to be given, we believe we would have various periods in which to cure such events of default or obtain necessary extensions. If we do not cure the events of default or obtain necessary extensions within the required time periods or certain extended time periods, the maturity of some of our debt could be accelerated and our ability to incur additional indebtedness could be restricted. Moreover, defaults under our bank loan agreements could trigger

cross-default provisions under those and other arrangements. There can be no assurance that any additional extensions will be received on a timely basis, if at all, or that any extensions obtained, including the extensions we have already obtained, will extend for a sufficient period of time to avoid an acceleration event, an event of default or other restrictions on our business operations. The failure to obtain such extensions could have a material adverse effect on our business, liquidity and financial condition.

The delay in filing this 2006 10-K on Form 10-K and our Quarterly Report on Form 10-Q for the quarter ended December 31, 2006 with the SEC and any failure to satisfy other NASDAQ listing requirements could cause the NASDAQ to commence suspension or delisting procedures with respect to our common stock.

As a result of the delay in filing this annual report, we were in breach of certain continued listing requirements of the NASDAQ. We have received from the NASDAQ an additional period in which to trade our securities until July 2, 2007 in order for us to file this annual report and our Quarterly Report on Form 10-Q for the quarter ended December 31, 2006 before that date. If we do not file the Quarterly Report on Form 10-Q for the quarter ended December 31, 2006 by such date or fail to satisfy other NASDAQ listing requirements, including the timely filing of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, if not waived by the NASDAQ, NASDAQ could commence suspension or delisting procedures with respect to our common stock. The commencement of any suspension or delisting procedures by the NASDAQ remains, at all times, at the discretion of the NASDAQ and would be publicly announced by the NASDAQ. The delisting of our common stock from NASDAQ may have a material adverse effect on us by, among other things, limiting:

- the liquidity of our common stock;
- the market price of our common stock;
- the number of institutional and other investors that will consider investing in our common stock;
- the availability of information concerning the trading prices and volume of our common stock;
- the number of broker-dealers willing to execute trades in shares of our common stock; and
- our ability to obtain equity financing for the continuation of our operations.

Our performance could be materially adversely affected by a general economic downturn or lessening demand in the software sector.

Our financial condition depends on the health of the general economy as well as the software sector. Our revenue and profits are driven by demand for our products and services. A lessening demand in either the overall economy or the software sector could lead to a material decrease in our future revenues and earnings.

The software market is a highly competitive industry, and we may not be able to compete effectively.

The software market evolves quickly and is highly competitive. There is no assurance that we will be able to maintain our current market share or customer base. For instance, we may not be able to accurately predict future changes in our customers needs and our competitors may develop new technologies or products that lessen demand for our products or make our products obsolete. Increased competition in the software sector could lead to price reductions, reduced profits, or loss of market share.

Management s backlog estimate may not be accurate and may not generate the predicted revenues.

Estimates of future financial results are inherently unreliable. Our backlog estimates are based on management s assessment of the customer contracts that exist as of the date the estimates are made, as well as revenues from assumed contract renewals, to the extent that we believe that recognition of the related revenue will occur within the corresponding backlog period. A number of factors could result in actual revenues being less than the amounts reflected in backlog. Our 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 we may experience delays in the development or delivery of products or services specified in customer contracts. Actual renewal rates and amounts may differ from historical experiences used to estimate backlog amounts. Changes in foreign currency exchange rates may also impact the amount of revenue actually recognized in future periods. Accordingly, there can be no assurance that contracts included in backlog will actually generate the specified revenues or that the actual revenues will be generated within a 12-month or 60-month period.

We may face exposure to unknown tax liabilities, which could adversely affect our financial condition and/or results of operations.

We are subject to income and non-income based taxes in the United States and in various foreign jurisdictions. Significant judgment is required in determining our worldwide income tax liabilities and other tax liabilities. In addition, we expect to continue to benefit from implemented tax-saving strategies. We believe that these tax-saving strategies comply with applicable tax law. If the governing tax authorities have a different interpretation of the applicable law and successfully challenge any of our tax positions, our financial condition and/or results of operations could be adversely affected.

Two of our 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 our tax positions. We believe our tax positions comply with applicable tax law and intend to vigorously defend our positions. However, differing positions on certain issues could be upheld by foreign tax authorities, which could adversely affect our financial condition and/or results of operations.

Consolidation in the financial services industry may adversely impact the number of customers and our revenues in the future.

Mergers, acquisitions and personnel changes at key financial services organizations have the potential to adversely affect our business, financial condition, and results of operations. Our business is concentrated in the financial services industry, making us 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 could cause us to lose existing and potential customers for our products and services. For instance, consolidation of two of our customers could result in reduced revenues if the combined entity were to negotiate greater volume discounts or discontinue use of certain of our products. Additionally, if a non-customer and a customer combine and the combined entity in turn decided to forego future use of our products, our revenues would decline.

Our stock price may be volatile.

No assurance can be given that operating results will not vary from quarter to quarter, and past performance may not accurately predict future performance. Any fluctuations in quarterly operating results may result in volatility in our stock price. Our 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.

There are a number of risks associated with our international operations.

We have historically derived a majority of our revenues from international operations and anticipate continuing to do so. As a result, we are 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. Our exposures resulting from fluctuations in foreign currency exchange rates may change over time as our business evolves and could have an adverse impact on our financial condition and/or results of operations. We have not entered into any derivative instruments or hedging contracts to reduce exposure to adverse foreign currency changes. Other potential risks include difficulties associated with 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 we sell our products and services.

One of our most strategic products, BASE24-eps could prove to be unsuccessful in the market.

Our BASE24-eps product is strategic for us, in that it is designated to help us win new accounts, replace legacy payments systems on multiple hardware platforms and help us transition our existing customers to a new, open-systems product architecture. Our business, financial condition and/or results of operations could be materially adversely affected if we are unable to generate adequate sales of BASE24-eps, if market acceptance of BASE24-eps is delayed, or if we are unable to successfully deploy BASE24-eps in production environments.

Our future profitability depends on demand for our products; lower demand in the future could adversely affect our business.

Our revenue and profitability depend on the overall demand for our products and services. Historically, a majority of our total revenues resulted from licensing our 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 our financial condition and/or results of operations.

We have historically derived a substantial portion of our 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 our financial condition and/or results of operations.

Our software products may contain undetected errors or other defects, which could damage our reputation with customers, decrease profitability, and expose us to liability.

Our software products are complex. They may contain undetected errors or flaws when first introduced or as new versions are released. These undetected errors may result in loss of, or delay in, market acceptance of our products and a corresponding loss of sales or revenues. Customers depend upon our products for mission-critical applications, and these errors may hurt our reputation with customers. In addition, software product errors or failures could subject us to product liability, as well as performance and warranty claims, which could materially adversely affect our business, financial condition and/or results of operations.

Risks associated with future acquisitions and investments could materially adversely affect our business.

We 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 2006, we acquired eps and P&H. Any acquisition or investment, including the acquisitions of eps and P&H, is subject to a number of risks. Such risks include the diversion of management time and resources, disruption of our ongoing business, difficulties in integrating acquisitions, dilution to existing stockholders if our 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. Our failure to successfully manage acquisitions or investments, or successfully integrate acquisitions could have a material adverse effect on our business, financial condition and/or results of operations. Correspondingly, our expectations related to the benefits related to the eps and P&H acquisitions or any other future acquisition or investment could be inaccurate.

We may be unable to protect our intellectual property and technology and may be subject to increasing litigation over our intellectual property rights.

To protect our proprietary rights in our intellectual property, we rely on a combination of contractual provisions, including customer licenses that restrict use of our products, confidentiality agreements and procedures, and trade secret and copyright laws. Despite such efforts, we may not be able to adequately protect our proprietary rights, or our competitors may independently develop similar technology, duplicate products, or design around any rights we believe 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 to protect our proprietary rights could materially adversely affect us.

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 us and our 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. Any claim against us, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays, require us to enter into royalty or licensing agreements or pay amounts in settlement, or require us to develop alternative non-infringing technology.

We anticipate that software product developers and providers of electronic commerce solutions could increasingly be subject to infringement claims, and third parties may claim that our present and future products infringe upon their intellectual property rights. Third parties may also claim, and we are aware that at least two parties have claimed on several occasions, that our customers use of a business process method which utilizes our products in conjunction with other products infringe on the third-party s intellectual property rights. These third-party claims could lead to indemnification claims against us by our customers. Claims against our customers related to our products, whether or not meritorious, could harm our reputation and reduce demand for our products. Where indemnification claims are made by customers, resistance even to unmeritorious claims could damage the customer relationship. A successful claim by a third-party of intellectual property infringement by us or one of our customers could compel us 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 us or at all, which could adversely affect our business.

Our exposure to risks associated with the use of intellectual property may be increased for third-party products distributed by us or as a result of acquisitions since we have 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.

Our restructuring plan may not achieve expected efficiencies.

In October 2005, we announced a plan to restructure our organization because we believed that combining our three business units into a single operating unit would provide us with the best opportunities for focus, operating efficiency and strategic acquisition integration. This restructuring of our 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 our service to customers, and lack of familiarity with markets or products. We cannot assure investors that our expectation of savings expected to stem from the restructuring will be achieved.

We may become involved in litigation that could materially adversely affect our business financial condition and/or results of operations.

From time to time, we are involved in litigation relating to claims arising out of our 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 our business, financial condition, results of operations and/or cash flows.

Changes in the generally accepted accounting principles (GAAP) may have significant adverse effects on us.

From time to time, the Financial Standards Accounting Board (FASB) promulgates new accounting rules applicable to us. New accounting standards, revised interpretations or guidance regarding existing standards, or changes in our business practices could result in future changes to our revenue recognition or other accounting policies. These changes could also have a material adverse effect on our business, financial condition and/or results of operations.

Management has identified a number of material weaknesses in our internal control over financial reporting.

Effective internal control over financial reporting is necessary for compliance with the Sarbanes-Oxley Act of 2002 and appropriate financial reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process, under the supervision of our CEO and CFO, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with GAAP. As disclosed in this 2006 10-K, management s assessment of our internal control over financial reporting identified material weaknesses in various areas as discussed in *Item 9A. Controls and Procedures*. No assurance can be given that we will be able to successfully implement revised internal controls and procedures, if any, or that revised controls and procedures, if any, will be effective in remedying the potential material weakness in our prior controls and procedures, nor can we provide assurance that we will not identify additional material weaknesses the future. In addition, we may be required to hire additional employees to help implement these changes, and may experience higher than anticipated capital expenditures and operating expenses during the implementation of these changes and thereafter. If we are unable to implement these changes effectively or if other material weaknesses develop and we are unable to

effectively address these matters, there could be a material adverse effect on our business, financial condition and results of operations.

ITEM 2. PROPERTIES

We lease office space in New York, New York for our corporate headquarters. We also lease office space in Omaha, Nebraska, for our principal product development group, sales and support groups for the Americas, as well as our corporate, accounting and administrative functions. The leases for our current Omaha-based facilities expire in fiscal 2008. We have contracted for new Omaha-based facilities to be first occupied at the end of 2008 and to continue through fiscal 2028. Our Europe/Middle East/Africa headquarters are located in Watford, England. The various leases for the Watford facilities expire in fiscal 2009 and 2017. Our Asia/Pacific headquarters are located in Sydney, Australia, with the lease for this facility expiring in fiscal 2011. We also lease office space in numerous other locations in the United States and in many other countries.

We believe that our current facilities are adequate for our present and short-term foreseeable needs and that additional suitable space will be available as required. We also believe that we will be able to renew leases as they expire or secure alternate suitable space. See Note 18, Commitments and Contingencies in the Notes to Consolidated Financial Statements for additional information regarding our obligations under our facilities leases.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in various litigation matters arising in the ordinary course of our business. Other than as described below, we are not currently a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, we believe would be likely to have a material adverse effect on our 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 us 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 previously alleged that during the purported class period, we and the named defendants misrepresented our historical financial condition, results of operations and our future prospects, and failed to disclose facts that could have indicated an impending decline in our revenues. That Complaint also alleged that, prior to August 2002, the purported truth regarding our financial condition had not been disclosed to the market. We and the individual defendants initially filed a motion to dismiss the lawsuit. In response, on December 15, 2003, the Court dismissed, without prejudice, Gregory Derkacht, our former president and chief executive officer, as a defendant, but denied the motion to dismiss with respect to the remaining defendants, including us.

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 of persons that purchased our common stock from January 21, 1999 through November 18, 2002.

On January 27, 2006, we and the individual defendants filed a motion for judgment on the pleadings, seeking a dismissal of the lead plaintiff and certain other class members, as well as a limitation on damages based upon plaintiffs inability to establish loss causation with respect to a large portion of their claims. On February 6, 2006, additional class representative Roger M. Wally filed a motion to withdraw as a class representative and class member. On April 21, 2006, and based upon

the pending motion for judgment, a motion to intervene as a class representative was filed by the Louisiana District Attorneys Retirement System (LDARS). LDARS previously attempted to be named as lead plaintiff in the case. On July 5, 2006, the Magistrate denied LDARS motion to intervene, which LDARS appealed to the District Judge. That appeal has not yet been decided.

On May 17, 2006, the Court denied the motion for judgment on the pleadings as being moot based upon the Court s granting lead plaintiff leave to file a Third Amended Complaint (Third Complaint), which it did on May 31, 2006. The Third Complaint alleges the same misrepresentations as described above, while simultaneously alleging that the purported truth about our financial condition was being disclosed throughout that time, commencing in April 1999. The Third Complaint seeks unspecified damages, interest, fees, and costs.

On June 14, 2006, we and the individual defendants filed a motion to dismiss the Third Complaint pursuant to Rules 8 and 12 of the Federal Rules of Civil Procedure. Lead Plaintiff opposed the motion. Prior to any ruling on the motion to dismiss, on November 7, 2006, the parties entered into a Stipulation of Settlement for purposes of settling all of the claims in the Class Action Litigation, with no admissions of wrongdoing by us or any individual defendant. The settlement provides for an aggregate cash payment of $24.5 million of which, net of insurance, we contributed approximately $8.5 million. The settlement was approved by the Court on March 2, 2007 and the Court ordered the case dismissed with prejudice against us and the individual defendants.

On March 27, 2007, James J. Hayes, a class member, filed a notice of appeal with the United States Court of Appeals for the Eighth Circuit appealing this order. We intend to respond to this appeal in accordance with the Court of Appeals orders and procedures.

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 2006.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on The NASDAQ Global Select Market under the symbol TSAI. The following table sets forth, for the periods indicated, the high and low sale prices of our common stock as reported by The NASDAQ Global Select Market:

Fiscal Year Ended September 30, 2006	**High**	**Low**
Fourth quarter	$ 42.37	$ 31.05
Third quarter	43.00	30.25
Second quarter	34.37	28.06
First quarter	30.67	24.91

Fiscal Year Ended September 30, 2005		
Fourth quarter	$ 28.95	$ 24.44
Third quarter	25.15	20.28
Second quarter	24.34	17.55
First quarter	21.58	15.22

As of May 8, 2007, there were 237 holders of record of our common stock. A substantially greater number of holders of our common stock are street name or beneficial holders, whose shares are held of record by banks, brokers and other financial institutions.

Dividends

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

Issuer Purchases of Equity Securities

The following table provides information regarding repurchases of our common stock during the fourth quarter of fiscal 2006:

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Program**	**Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program**
July 1 through July 31, 2006	179,031	$ 36.33	179,031	$ 45,665,000
August 1 through August 31, 2006	162,990	$ 34.45	162,990	$ 40,050,000
September 1 through September 30, 2006	106,857	$ 33.18	106,857	$ 36,505,000
Total (1)	448,878	$ 34.90	448,878	

(1) In December 2004, we announced that our Board of Directors approved a stock repurchase program authorizing us, from time to time as market and business conditions warrant, to acquire up to $80 million of our common stock, and that we intend to use existing cash and cash equivalents to fund these repurchases. In May 2006, our Board of Directors approved an increase of $30.0 million to the stock repurchase program, bringing the total of the approved program to $110.0 million. In February 2007, our Board of Directors approved another increase of

$100.0 million to the stock purchase program, bringing the total of the approved program to $210.0 million. There is no guarantee as to the exact number of shares that will be repurchased by us. Repurchased shares are returned to the status of authorized but unissued shares of common stock. In March 2005, our Board of Directors approved a plan under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate the repurchase of shares of common stock under the existing stock repurchase program. Under our Rule 10b5-1 plan we have delegated authority over the timing and amount of repurchases to an independent broker who does not have access to inside information about us. Rule 10b5-1 allows us, through the independent broker, to purchase our shares at times when we ordinarily would not be in the market because of self-imposed trading blackout periods, such as the time immediately preceding the end of the fiscal quarter through a period two business days following our quarterly earnings release. During the fourth quarter of fiscal 2006, all shares were purchased in open-market transactions.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data has been derived from our consolidated financial statements. This data should be read together with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations , and the consolidated financial statements and related notes included elsewhere in this 2006 10-K. The financial information below is not necessarily indicative of the results of future operations. Future results could differ materially from historical results due to many factors, including 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 our Common Stock.

As explained in the Explanatory Note to this 2006 10-K, our consolidated balance sheet as of September 30, 2005 and the consolidated statements of operations for the fiscal years ended September 30, 2005 and 2004 have been restated to correct certain errors in the recognition of stock-based compensation expense relating to stock options granted in fiscal periods between 1995 and 2002. These errors resulted in additional non-cash stock-based compensation expense of $0.2 million, $0.5 million, $0.4 million, and $0.5 million for the years ended September 30, 2005, 2004, 2003 and 2002, respectively. The cumulative effect of the related after-tax charges for periods prior to 2002 was $12.2 million. The data for the consolidated balance sheets as of September 30, 2004, 2003 and 2002 and the consolidated statements of operations for the fiscal years ended September 30, 2003 and 2002 have been restated to reflect the impact of the stock-based compensation adjustments, but such restated data have not been audited and are derived from our books and records. We have also adjusted certain prior period financial statements to reflect other items. The information presented in the following tables has been adjusted to reflect the restatement of our financial results, which is more fully described in the Explanatory Note immediately preceding Part I, Item 1 and in Note 2, Restatement of Consolidated Financial Statements, in the Notes to Consolidated Financial Statements of this 2006 10-K.

We have not amended our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by these adjustments. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this 2006 10-K, and the financial statements and related financial information contained in such previously filed reports should no longer be relied upon.

	Year Ended September 30,				
	2006 (1)	**2005 Restated (2)**	**2004 Restated (2)**	**2003 Restated (4)**	**2002 Restated (4)**
	(in thousands, except per share amounts)				
Income Statement Data:					
Total Revenues	$ 347,902	$ 313,237	$ 292,784	$ 277,291	$ 284,667
Net income	$ 55,365	$ 43,099	$ 46,306	$ 14,057	$ 14,953
Earnings per share:					
Basic	$ 1.48	$ 1.14	$ 1.25	$ 0.40	$ 0.42
Diluted	$ 1.45	$ 1.12	$ 1.21	$ 0.39	$ 0.42
Shares used in computing earnings per share:					
Basic	37,369	37,682	37,001	35,558	35,326
Diluted	38,237	38,507	38,117	35,722	35,547

	As of September 30,				
	2006	**2005 Restated (2)**	**2004 Restated (2)**	**2003 Restated (4)**	**2002 Restated (4)**
			(in thousands)		
Balance Sheet Data:					
Working capital (3)	$ 67,932	$ 120,594	$ 124,088	$ 81,084	$ 49,466
Total assets (3)	$ 534,147	$ 363,700	$ 325,959	$ 264,405	$ 268,166
Current portion of debt	$	$ 2,165	$ 7,027	$ 15,493	$ 18,444
Debt (long-term portion) (3)	$ 75,000	$ 154	$ 2,327	$ 9,444	$ 24,866
Stockholders equity	$ 267,212	$ 217,438	$ 187,462	$ 123,379	$ 103,873 (1)

(1) We adopted FAS 123(R) using the modified prospective transition method.

(2) See the Explanatory Note immediately preceding Part I, Item 1 and Note 2, Restatement of Consolidated Financial Statements, in our Notes to Consolidated Financial Statements of this 2006 10-K.

(3) On September 29, 2006, we acquired P&H Solutions, Inc. The aggregate purchase price for P&H was approximately $134 million, of which $73 million was financed by long-term debt.

(4) The Selected Income Statement Data for 2003 and 2002 have been restated to reflect adjustments related to stock-based compensation expense and the associated tax impact as further described in the Explanatory Note immediately preceding Part I, Item 1 of this Form 10-K. As a result of these adjustments, net income was reduced by $0.3 million and $0.3 million for the years ended September 30, 2003 and 2002, respectively, as follows:

	For the fiscal year ended September 30, 2003			For the fiscal year ended September 30, 2002		
	Previously Reported	Option Adjustments	As Restated	Previously Reported	Option Adjustments	As Restated
	(in thousands, except per share amounts)					
Total Revenues	$ 277,291	$	$ 277,291	$ 284,667	$	$ 284,667
Net income	$ 14,325	$ (268) A	$ 14,057	$ 15,269	$ (316) A	$ 14,953
Earnings per share						
Basic	$ 0.40	$ (0.00) A	$ 0.40	$ 0.43	$ (0.01) A	$ 0.42
Diluted	$ 0.40	$ (0.01) A	$ 0.39	$ 0.43	$ (0.01) A	$ 0.42
Weighted average shares outstanding						
Basic	35,558		35,558	35,326		35,326
Diluted	35,707	15 A	35,722	35,572	(25) A	35,547

A: Adjusted for stock compensation expense and the tax provision associated with it pursuant to APB Opinion No. 25 and related interpretations.

	For the fiscal year ended September 30, 2004		
	Previously Reported	Option Adjustments	Restated
	(in thousands)		
Working Capital	$ 124,088	$	$ 124,088
Total Assets	$ 325,458	$ 501 B	$ 325,959
Shareholders Equity	$ 186,961	$ 501 B	$ 187,462

	For the fiscal year ended September 30, 2003			For the fiscal year ended September 30, 2002		
	Previously Reported	Option Adjustments	Restated	Previously Reported	Option Adjustments	Restated
	(in thousands)					
Working Capital	$ 81,084	$	$ 81,084	$ 49,466	$	$ 49,466
Total Assets	$ 263,900	$ 505 B	$ 264,405	$ 267,151	$ 1,015 B	$ 268,166
Shareholders Equity	$ 122,874	$ 505 B	$ 123,379	$ 102,858	$ 1,015 B	$ 103,873

B: Adjusted for stock compensation expense and the related income tax assets pursuant to APB Opinion No. 25 and related interpretations.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We develop, market, install and support a broad line of software products and services primarily focused on facilitating electronic payments. In addition to our own products, we distribute, or act as a sales agent for, software developed by third parties. Our 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 independent reseller and/or distributor networks. Our products and services are used principally by financial institutions, retailers and electronic payment processors, both in domestic and international markets. Accordingly, our business and operating results are influenced by trends such as information technology spending levels, the growth rate of the electronic payments industry, mandated regulatory changes, and changes in the number and type of customers in the financial services industry. As set forth in Note 9, Corporate Restructuring and Other Reorganization Charges of the Notes to Consolidated Financial Statements, at the beginning of fiscal 2006, we underwent a corporate reorganization, combining our products and services under the ACI Worldwide name.

We derive a majority of our revenues from non-domestic operations and believe our greatest opportunities for growth exist largely in international markets. Refining our global infrastructure is a critical component of driving our growth. We have launched a globalization strategy which includes elements intended to streamline our supply chain and provide low-cost centers of expertise to support a growing international customer base. In fiscal 2006, we established a new subsidiary in Ireland to serve as the focal point for certain international product development and commercialization efforts. This subsidiary will oversee remote software development operations in Romania and elsewhere, as well as manage certain of our intellectual property rights. We are forming a ACI On Demand group to develop new business and market-entry vehicles where we sell a service directly to end-user banks, retailers or processors. We also moved our principal executive offices to New York City in September 2006 to more strategically manage our global infrastructure.

Key trends that currently impact our strategies and operations include:

- **Increasing electronic payment transaction volumes.** Electronic payment volumes continue to increase around the world, taking market share from traditional cash and check transactions. We recently commissioned an industry study that determined that electronic payment volumes are expected to grow at approximately 13% per year for the next five years, with varying growth rates based on the type of payment and part of the world. We leverage the growth in transaction volumes through the licensing of new systems to customers whose older systems cannot handle increased volume and through the licensing of capacity upgrades to existing customers.

- **Increasing competition.** The electronic payments market is highly competitive and subject to rapid change. Our competition comes from in-house information technology departments, third-party electronic payment processors and third-party software companies located both within and outside of the United States. Many of these companies are significantly larger than us and have significantly greater financial, technical and marketing resources. As electronic payment transaction volumes increase, third-party processors tend to provide competition to our solutions, particularly among customers that do not seek to differentiate their electronic payment offerings. As consolidation in the financial services industry continues, we anticipate that competition for those customers will intensify.

- **Aging payments software.** In many markets, electronic payments are processed using software developed by internal information technology departments, much of which was

originally developed over ten years ago. Increasing transaction volumes, industry mandates and the overall costs of supporting these older technologies often serve to make these older systems obsolete, creating opportunities for us to replace this aging software with newer and more advanced products.

- **Adoption of open systems technology.** In an effort to leverage lower-cost computing technologies and current technology staffing and resources, many financial institutions, retailers and electronic payment processors are seeking to transition their systems from proprietary technologies to open technologies such as Windows, UNIX and Linux. Our continued investment in open systems technologies is, in part, designed to address this demand.

- **Electronic payments fraud and compliance.** As electronic payment transaction volumes increase, criminal elements continue to find ways to commit a growing volume of fraudulent transactions using a wide range of techniques. Financial institutions, retailers and electronic payment processors continue to seek ways to leverage new technologies to identify and prevent fraudulent transactions. Due to concerns with international terrorism and money laundering, financial institutions in particular are being faced with increasing scrutiny and regulatory pressures. We continue to see opportunity to offer our fraud detection solutions to help customers manage the growing levels of electronic payment fraud and compliance activity.

- **Adoption of smartcard technology.** In many markets, card issuers are being required to issue new cards with embedded chip technology. Chip-based cards are more secure, harder to copy and offer the opportunity for multiple functions on one card (e.g. debit, credit, electronic purse, identification, health records, etc.). The Europay/Mastercard/Visa (EMV) standard for issuing and processing debit and credit card transactions has emerged as the global standard, with many regions throughout the world working on EMV rollouts. The primary benefit of EMV deployment is a reduction in electronic payment fraud, with the additional benefit that the core infrastructure necessary for multi-function chip cards is being put in place (e.g. chip card readers in ATM s and POS devices). We are working with many customers around the world to facilitate EMV deployments, leveraging several of our solutions.

- **Single Euro Payments Area (SEPA) and Faster Payments Mandates.** The SEPA and Faster Payment initiatives, primarily focused on the European Economic Community and the United Kingdom, are designed to facilitate lower costs for cross-border payments and facilitate reduced timeframes for settling electronic payment transactions. Our retail and wholesale banking solutions provide key functions that help financial institutions address these mandated regulations.

- **Financial institution consolidation.** Consolidation continues on a national and international basis, as financial institutions seek to add market share and increase overall efficiency. 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 our products and services. Consolidation of two of our customers could result in reduced revenues if the combined entity were to negotiate greater volume discounts or discontinue use of certain of our products. Additionally, if a non-customer and a customer combine and the combined entity in turn decide to forego future use of our products, our revenue would decline. Conversely, we could benefit from the combination of a non-customer and a customer when the combined entity continues use of our products and, as a larger combined entity, increases its demand for our products and services. We tend to focus on larger financial institutions as customers, often resulting in our solutions being the solutions that survive in the consolidated entity.

- **Electronic payments convergence.** As electronic payment volumes grow and pressures to lower overall cost per transaction increase, financial institutions are seeking methods to consolidate their payment processing across the enterprise. We believe that the strategy of using service-oriented-architectures to allow for re-use of common electronic payment functions such as authentication, authorization, routing and settlement will become more common. Using these techniques, financial institutions will be able to reduce costs, increase overall service levels, enable one-to-one marketing in multiple bank channels and manage enterprise risk. Our reorganization was, in part, focused on this trend, by facilitating the delivery of integrated payment functions that can be re-used by multiple bank channels, across both the consumer and wholesale bank. While this trend presents an opportunity for us, it may also expand the competition from third-party electronic payment technology and service providers specializing in other forms of electronic payments. Many of these providers are larger than us and have significantly greater financial, technical and marketing resources.

Several other factors related to our business may have a significant impact on our operating results from year to year. For example, the accounting rules governing the timing of revenue recognition in the software industry are complex and it can be difficult to estimate when we will recognize revenue generated by a given transaction. Factors such as maturity of the software product licensed, payment terms, creditworthiness of the customer, and timing of delivery or acceptance of our products often cause revenues related to sales generated in one period to be deferred and recognized in later periods. For arrangements in which services revenue is deferred, related direct and incremental costs may also be deferred. Additionally, while the majority of our contracts are denominated in the U.S. dollar, a substantial portion of our sales are made, and some of our expenses are incurred, in the local currency of countries other than the United States. Fluctuations in currency exchange rates in a given period may result in the recognition of gains or losses for that period.

We continue to seek ways to grow, through both organic sources and acquisitions. We continually look for potential acquisitions designed to improve our solutions breadth or provide access to new markets. As part of our acquisition strategy, we seek acquisition candidates that are strategic, capable of being integrated into our operating environment, and financially accretive to our financial performance.

We continue to evaluate strategies intended to improve our overall effective tax rate. Our degree of success in this regard and related acceptance by taxing authorities of tax positions taken, as well as changes to tax laws in the United States and in various foreign jurisdictions, could cause our effective tax rate to fluctuate from period to period. During the third quarter of fiscal 2006, we began to manage certain intellectual property rights from our Irish subsidiary as part of our overall globalization strategy. We expect these globalization efforts to result in future improvements in profitability and reductions in our overall effective tax rate.

RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

We initiated a review of our historic stock option granting practices following general public reports about option granting issues among public companies. The review was self-initiated and not prompted by any inquiry from a regulatory body, a whistleblower or other source. On October 27, 2006, we announced the voluntary internal review (the review). The review was conducted by the audit committee of our board of directors (the board) with the assistance of independent counsel and forensic accountants. On March 16, 2007, we publicly announced the completion and key results of the review, which are set forth in the Form 8-K filed with the SEC on that date.

The independent counsel and its forensic accountants reviewed paper files, e-mails and electronic files; conducted interviews with current and former members of the board s compensation

committee, current and former directors, officers, employees and advisors; and conducted an extensive analysis of facts and circumstances related to all stock option grants made from the date of our IPO in 1995 to 2006.

In the course of the review, measurement date errors were noted. We applied the accounting standards then in effect to determine, for every grant, the proper measurement dates. As a result, we have restated our prior period financial statements to account for any stock based compensation charges associated with the revised measurement dates. Accordingly, in this report, additional non-cash compensation expense and related tax effects are recorded over the relevant option service periods.

We previously applied APB Opinion No. 25, and its related Interpretations and provided the required pro forma disclosures under SFAS No. 123 through the fiscal year ended September 30, 2005. APB Opinion No. 25, and its related interpretations required stock based compensation expense to be recognized for any stock option for which the exercise price was below the market price on the applicable measurement date, and expense to be recognized over the service period of the stock option. The measurement date, as defined by APB Opinion No. 25, is the first date on which both (1) the number of stock options that an individual employee is entitled to receive and (2) the exercise price, if any, are established.

During the period from the IPO in 1995 through 2002, we issued a total of approximately 8.8 million stock options. Major classifications of the options granted during this time were: broad-based grants to employees excluding the CEO and CFO (5.2 million stock options); CEO and CFO grants (1.4 million stock options); 1997 Management Plan excluding the CEO and CFO (0.8 million stock options); employee recognition awards (0.2 million stock options); non-employee director grants (0.2 million stock options). The remaining grants relate to employee hiring and promotions. Approximately 92%, or 8.1 million of the stock options granted in this period, were granted pursuant to 18 large grants and the remainder was granted pursuant to approximately 360 small grants.

Broad-Based Annual Grants to Employees Excluding the CEO and CFO Approximately 5.2 million of the 8.8 million stock options issued during this period were issued pursuant to seven awards to over 2,000 employees, excluding options granted to the CEO and CFO. Prior to 2003, based upon formal board action and informal consultations with board members, the CEO and CFO believed they had been delegated authority to carry out the employee option granting process. Generally, the CEO approved the numbers of options and recipients, while the CFO set the grant date, which determined the exercise price.

For these grants, the review identified that the Compensation Committee and the CEO typically discussed the general allocation of stock options prior to the grant. The stock option granting process then included gathering recommendations from division level managers for the allocation of options within those divisions. When the proposed stock option lists were submitted by the manager, they were reviewed and approved by the CEO or CFO. This process typically continued beyond the original grant date. Generally, the investigation identified evidence of an approval of the list by the CEO or the CFO and the determination of the exercise price by the CFO. In many instances, the CFO used hindsight and often looked for the lowest stock price in the quarter in selecting the original grant date.

Based on all available evidence, we typically determined that the appropriate measurement date for these grants was the later of the following two dates: (a) the date on which evidence indicated that a communication to or from our former CEOs or CFOs approves a particular list (evidencing finality of that list) or (b) the date on which the price of the options was determined by the CFO with finality. Where information was not available to evidence either (a) or (b) above, we determined the appropriate measurement date to be the date on which, based upon all available evidence, the granting process was completed with finality. In most of those instances, we determined the

measurement date to be when the grant was entered into our stock option software. Where changes were noted subsequent to the date a list appeared to be substantially complete, we determined, based on best available evidence, whether the changes constituted an extension of the option-granting process for the entire list or for the specific changes noted.

Option Exchange Program On August 29, 2001, 1.95 million outstanding stock options were cancelled by us pursuant to a previously announced exchange program. On March 4, 2002, 1.82 million options (included in the 5.2 million of Annual Broad Based awards) were issued in replacement of these cancelled options. The difference between the number of cancelled options and the number of replacement options was due to employee departures between August 29, 2001 and March 4, 2002. The review indicated that the measurement date with respect to the March 4, 2002 options was the same as the original grant date. As a result, no compensation charge related to substantially all of the replacement options was required. We did determine that options for three individuals were cancelled after August 29, 2001 which resulted in variable plan accounting for the respective replacement awards granted on March 4, 2002, as the lapsed period between the cancellation and replacement awards was not sufficient to permit the replacement options to be considered new grants.

Under APB Opinion No. 25 and FASB Interpretation Number 44 (FIN 44), *Accounting for Certain Transactions involving Stock Compensation an interpretation of APB Opinion No. 25*, the cancellation of options other than for non-performance of termination of employment, requires that any unamortized stock based compensation expense associated with the cancelled options be recognized in the period in which the cancellation occurs. Based on changes to measurement dates for grants prior to the August 29, 2001 cancellation that remained unvested, we were required to record the unrecognized compensation expense of approximately $2.1 million associated with the cancelled stock options on August 29, 2001.

CEO and CFO Grants Approximately 1.4 million of the 8.8 million options issued during this period were granted to the then CEOs and CFOs. While approving grant awards to other employees, the CEO and CFO granted options to themselves. Given the role the CEO and CFO played in the options granting process, we have determined that the appropriate measurement date for options issued to the former CEOs and CFOs was the date on which the Board or Compensation Committee took action to ratify their grants, except for the 1997 Management Plan Grants noted below. Also, as noted above, in many instances, the CFO used hindsight and often looked for the lowest stock price in the quarter in selecting the original grant date. The change in measurement dates for these grants resulted in an additional compensation charge of approximately $2.9 million.

1997 Management Plan Grants In March and April 1997, we issued approximately 0.8 million options to certain members of management, excluding options granted to the CEO and CFO. The terms of the 1997 Option Plan included that the grantees accept the options and pay $3 for each option. Based on the acceptance provision, we have determined the appropriate measurement dates to be the date on which the grantee accepted the offer to purchase the options. In the few situations where we did not have evidence of acceptance by or payment from the grantee, we utilized best available evidence for the determination of a measurement date. Based on the Compensation Committee s consideration of this plan and anticipated grants to the CEO and the CFO prior to the acceptance of their awards, we determined that the acceptance criteria should also be used in determining the measurement dates for the CEO and CFO. The change in measurement dates for these grants resulted in an additional compensation charge of approximately $0.2 million.

Employee Recognition Awards Approximately 0.2 million of the 8.8 million options issued during this period were granted as part of our *President s Awards* program. In these grants, managers were given an annual allotment based on CEO and CFO discussions with the Board. The allocation process typically continued beyond the original grant date. Also, as noted above, in many

instances, the CFO used hindsight and often looked for the lowest stock price in the quarter in selecting the original grant date. The change in measurement dates for these grants resulted in an additional charge of approximately $0.2 million.

We have determined that the appropriate measurement date for these awards was the later of the following two dates: (a) the date on which evidence indicated that our former CEOs or CFOs approved a particular list (evidencing finality of that list) or (b) the date on which the price of the options was determined by the CFO with finality. Where definitive information was not available to evidence either (a) or (b), we determined the appropriate measurement date to be the date on which, based upon all available evidence, the granting process was completed with finality. In most of those instances, we determined the measurement date to be when the grant was entered into our stock option software. Where changes were noted subsequent to the date a list appeared to be substantially complete, we determined, based on best available evidence, whether the changes constituted an extension of the option-granting process for the entire list or for the specific changes noted.

Non-Employee director grants Non-Employee Directors generally received automatic option grants pursuant to the 1996, 2000 and 2002 Directors Option Plans based on their initial election to the board, on the anniversary thereof, and other designated dates thereafter, as specified in the plans. Management has determined that the measurement dates related to the Non-Employee Directors followed the provisions of the plans and their exercise price was the date the Director was initially elected to the board and the anniversary dates thereafter. Accordingly, no compensation expense has been recognized for these awards.

For certain of the plans above, compensation expense was also recognized as a result of modifications that resulted in new measurement dates that were made to certain employee option grant awards in connection with termination agreements from fiscal 1995 through April 30, 2001, including acceleration of vesting for unvested options and extensions of exercise periods for vested options. Compensation expense for these modifications was recorded during the relevant periods. In almost all cases, no substantial services were rendered by the terminated employees. As a result, substantially all of the incremental compensation expense from these modifications was recognized in the period of the termination. The total compensation charge for these modifications from fiscal 1995 through April 30, 2001 was approximately $2.2 million.

While we believe we have made appropriate judgments in determining the financial and tax impacts of our historic stock option practices, we cannot provide assurance that the SEC or the IRS will agree with the manner in which we have accounted for and reported, or not reported, the financial and tax impacts. If the SEC or the IRS disagrees with our financial or tax adjustments, and such disagreement results in material changes to the historical financial statements, we may have to further restate the prior financial statements, amend prior filings with the SEC, or take other actions not currently contemplated.

The cumulative pretax incremental stock compensation expense recognized by us for these errors (as described above) is approximately $18.0 million for fiscal years 1995 through 2003. The cumulative after tax amount for these fiscal years is $12.8 million.

The pretax incremental stock compensation expense recognized by us for these errors (as described above) in 2005 and 2004 is $0.2 million and $0.5 million, respectively and related after tax impact for these years was $0.1 million and $0.4 million, respectively.

The balance sheet impact of the errors, which resulted in an increase to deferred tax assets, was $0.3 million at September 30, 2005.

We utilized all available evidence from the review to determine the revised measurement dates noted above which required a significant amount of judgment. Based on the judgment required, in

many cases, we considered potential alternative measurement dates. Typically, these were rejected as we determined that the best available evidence supported the selected measurement dates. As part of the consideration of potential alternative dates, the evidence was generally sufficient to establish: (1) a date which was defined as the earliest possible date that met all the conditions that constitute a measurement date under APB Opinion No. 25 (the Inside Date) and (2) a date which was defined as the next possible date that met all the conditions that constitute a measurement date under APB Opinion No. 25 after the selected measurement date (the Outside Date).

In light of the significant judgment used, alternate measurement date selections to those identified by us could have resulted in different stock compensation charges than those recorded in the restatement. Based on all available evidence and applying the lowest and highest trading prices of our common stock between alternative dates for the majority of applicable grants, the total cumulative pre-tax, non-cash, stock compensation charge that could alternatively have been recognized by us ranged from approximately $12 million to $27 million for the fiscal periods 1995 through 2005.

We utilized all available evidence from the review to determine the revised measurement dates noted above. This process required a significant amount of judgment. In light of the significant judgment used, alternate approaches to those used by us could have resulted in different stock compensation charges than those recorded in the restatement.

We estimate that we will incur approximately $6 million to $7 million of expense, primarily professional fees, related to the historical stock option review and management analysis, substantially all of which was or will be expensed in the first ($3 million) and second ($3 million) quarters of fiscal 2007 and the remainder thereafter. In addition to the approximate $6 million to $7 million of expense incurred, we estimate that we will incur cash outlays of approximately $7 million for the settlement of vested options that optionees are or were unable to exercise due to the option review and which would otherwise expire. The actual amount incurred with respect to the settlement of options depends on the number of options that will expire prior to the Company becoming current on its quarterly financial statements as well as the stock price used to calculate any settlement amount. In most cases, these settlements reduced our additional paid-in capital balance and reduced our fully diluted outstanding shares.

Acquisitions

On July 29, 2005, we acquired the business of S2 Systems, Inc. (S2) through the acquisition of substantially all of its assets. S2 was a global provider of electronic payments and network connectivity software, and it primarily served financial services and retail customers, which were homogeneous and complementary to our target markets. In addition to its operations in the United States, S2 had a significant presence in the Middle East, Europe, Latin America, and the Asia/Pacific region, generating nearly half of its revenue from international markets.

On May 31, 2006, we acquired the outstanding shares of eps Electronic Payment Systems AG (eps), headquartered in Frankfurt, Germany. The acquisition of eps occurred in two closings. The initial closing occurred on May 31, 2006, and the second closing occurred on October 31, 2006. eps, with operations in Germany, Romania, the United Kingdom and other European locations, offers electronic payment and complementary solutions focused largely in the German market. The acquisition of eps will provide us additional opportunities to sell our value added solutions, such as Proactive Risk Manager and Smart Chip Manager, into the German marketplace, as well as to sell eps testing and dispute management solutions into markets beyond Germany. In addition, eps presence in Romania will help us more rapidly develop our global offshore development and support capabilities. The aggregate purchase price for eps was $30.4 million, which was comprised of cash payments of $19.1 million, 330,827 shares of common stock valued at $11.1 million, and direct costs of the acquisition.

On September 29, 2006, we completed the acquisition of P&H Solutions, Inc. (P&H). P&H is a leading provider of enterprise business banking solutions and provides a complement to our existing revenue producing activities. The aggregate purchase price for P&H, including direct costs of the acquisition, was $133.7 million, net of $20.2 million of cash acquired, approximately $73.3 million of which was financed by the Credit Agreement described in Note 8, Debt in the Notes to Consolidated Financial Statements, with the remaining cash of $60.4 million derived from the sale of investments The acquisition of P&H will extend our wholesale payments solutions suite, provide us with an Application Software Provider (ASP)-based offering and allow us to distribute P&H s solutions into international markets through our global distribution channel.

On February 7, 2007, we acquired Visual Web Solutions, Inc. Visual Web markets trade finance and web-based cash management solutions, primarily to financial institutions in the Asia-Pacific region.

On April 2, 2007, we acquired Stratasoft Sdn. Bhd. Stratasoft is a Kuala Lumpur based company focused on the provision of mainframe based payments systems to the Malaysian market. Prior to the acquisition, Stratasoft had been a distributor of our OCM 24 product within the Malaysian market since 1995.

Assets of Businesses Transferred Under Contractual Arrangements

On September 29, 2006, we completed the sale of the eCourier and Workpoint product lines to PlaNet Group, Inc. We retained rights to distribute these products as components of our electronic payments solutions. See Note 17, Assets of Businesses Transferred Under Contractual Arrangements in the Notes to Consolidated Financial Statements for further detail.

Backlog

Included in backlog are all software license fees, maintenance fees and services specified in executed contracts, as well as revenues from assumed contract renewals to the extent that we believe recognition of the related revenue will occur within the corresponding backlog period. We have historically included assumed renewals in backlog based upon automatic renewal provisions in the executed contract and our historic experience with customer renewal rates.

Our 60-month backlog represents expected revenues from existing customers using the following key assumptions:

- Maintenance fees are assumed to exist for the duration of the license term for those contracts in which the committed maintenance term is less than the committed license term.

- License and facilities management arrangements are assumed to renew at the end of their committed term at a rate consistent with our historical experiences.

- Non-recurring license arrangements are assumed to renew as recurring revenue streams.

- Foreign currency exchange rates are assumed to remain constant over the 60-month backlog period for those contracts stated in currencies other than the U.S. dollar.

- Our pricing policies and practices are assumed to remain constant over the 60-month backlog period.

In computing our 60-month backlog, the following items are specifically not taken into account:

- Anticipated increases in transaction volumes in customer systems.

- Optional annual uplifts or inflationary increases in recurring fees.

- Services engagements, other than facilities management, are not assumed to renew over the 60-month backlog period.

- The potential impact of merger activity within our markets and/or customers is not reflected in the computation of 60-month backlog.

The 60-month and 12-month backlog estimates set forth below for the periods ended September 30, 2005, December 31, 2005, March 31, 2006 and June 30, 2006 have been revised to reflect the exclusion of previously expected revenue associated with certain cancelled or replaced customer contracts. The revisions resulted in a reduction in 60-month backlog estimates in the following amounts, $4 million, $9 million, $10 million and $14 million, respectively for these periods.

The following table sets forth our 60-month backlog, by geographic region, as of September 30, 2006, September 30, 2005, and all interim periods (in millions):

	September 30, 2006	**June 30, 2006 (revised)**	**March 31, 2006 (revised)**	**December 31, 2005 (revised)**	**September 30, 2005 (revised)**
Americas	$ 671	$ 529	$ 521	$ 518	$ 525
EMEA	433	424	393	382	379
Asia/Pacific	122	125	126	126	123
	$ 1,226	$ 1,078	$ 1,040	$ 1,026	$ 1,027

Included in the September 30, 2006 and June 30, 2006 EMEA 60-month backlog estimate is approximately $19 million from the eps acquisition. Included in the September 30, 2006 Americas 60-month backlog estimate is approximately $135 million from the P&H acquisition. Periods other than those specifically referred to above do not contain backlog estimates from the eps or P&H acquisitions as the respective acquisition had not closed at the time backlog estimates were computed.

Included in 60-month backlog estimates for the June 30, 2006 and prior periods is approximately $8 million associated with our Workpoint and E-Courier product lines which were sold during the fourth quarter of fiscal 2006.

We also report 12-month backlog, segregated between monthly recurring and non-recurring revenues, using a methodology consistent with the 60-month calculation. Monthly recurring revenues include all monthly license fees, maintenance fees and facilities management fees. Non-recurring revenues include other software license fees and services. Amounts included in 12-month backlog assume renewal of one-time license fees on a monthly fee basis if such renewal is expected to occur in the next 12 months. The following table sets forth our 12-month backlog, by geographic region, as of September 30, 2006 and September 30, 2005 (in millions):

	September 30, 2006			**September 30, 2005**		
	Monthly Recurring	**Non-Recurring**	**Total**	**Monthly Recurring**	**Non-Recurring**	**Total**
Americas	$ 122	$ 32	$ 154	$ 97	$ 33	$ 130
EMEA	67	39	106	60	33	93
Asia/Pacific	23	6	29	26	1	27
	$ 212	$ 77	$ 289	$ 183	$ 67	$ 250

The revision referred to above reduced 12-month backlog for the period ended June 30, 2006 by $1 million to $257 million in total of which $190 million is Monthly Recurring and $67 million is Non-Recurring. The 12-month backlog amounts reported as of March 31, 2006, December 31, 2005, and September 30, 2005 are unchanged.

Included in the September 30, 2006 and June 30, 2006 12-month EMEA backlog results is approximately $5 million from the eps acquisition. Included in the September 30, 2006 Americas 12-month backlog results is approximately $25 million from the P&H acquisition. Periods other than those specifically referred to above do not contain backlog results from the eps or P&H acquisitions as the respective acquisition had not closed at the time backlog results were computed.

Included in 12-month backlog results for the June 30, 2006 and prior periods is approximately $4 million associated with our Workpoint and E-Courier product lines which were sold during the fourth quarter of fiscal 2006.

Our 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 the customer s industry or geographic location, or we may experience delays in the development or delivery of products or services specified in customer contracts which may cause the actual renewal rates and amounts to differ from historical experiences. Changes in foreign currency exchange rates may also impact the amount of revenue actually recognized in future periods. Accordingly, there can be no assurance that contracts included in backlog will actually generate the specified revenues or that the actual revenues will be generated within the corresponding 12-month or 60-month period.

RESULTS OF OPERATIONS

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

	Year Ended September 30, 2006		2005		2004	
	Amount	% of Total Revenue	Amount Restated (1)	% of Total Revenue	Amount Restated (1)	% of Total Revenue
Revenues:						
Initial license fees (ILFs)	$ 107,347	30.9 %	$ 95,206	30.4 %	$ 74,426	25.4 %
Monthly license fees (MLFs)	68,282	19.6 %	73,216	23.4 %	82,976	28.3 %
Software license fees	175,629	50.5 %	168,422	53.8 %	157,402	53.8 %
Maintenance fees	103,708	29.8 %	93,501	29.8 %	88,484	30.2 %
Services	68,565	19.7 %	51,314	16.4 %	46,898	16.0 %
Total revenues	347,902		313,237		292,784	
Expenses:						
Cost of software license fees	31,124	8.9 %	24,666	7.9 %	25,045	8.6 %
Cost of maintenance and services	79,622	22.9 %	60,337	19.3 %	57,380	19.6 %
Research and development	40,768	11.7 %	39,688	12.7 %	38,013	13.0 %
Selling and marketing	66,720	19.2 %	65,612	20.9 %	61,139	20.9 %
General and administrative	67,440	19.4 %	58,683	18.7 %	56,913	19.4 %
Settlement of class action litigation	8,450	2.4 %				
Total expenses	294,124	84.5 %	248,986	79.5 %	238,490	81.5 %
Operating income	53,778	15.5 %	64,251	20.5 %	54,294	18.5 %
Other income (expense):						
Interest income	7,825	2.2 %	3,843	1.2 %	1,762	0.6 %
Interest expense	(185)	(0.1)%	(510)	(0.2)%	(1,435)	(0.5)%
Other, net	(543)	(0.2)%	(1,681)	(0.5)%	2,294	0.8 %
Total other income	7,097	2.0 %	1,652	0.5 %	2,621	0.9 %
Income before income taxes	60,875	17.5 %	65,903	21.0 %	56,915	19.4 %
Income tax provision	(5,510)	(1.6)%	(22,804)	(7.3)%	(10,609)	(3.6)%
Net income	$ 55,365	15.9 %	$ 43,099	13.8 %	$ 46,306	15.8 %

(1) See Note 2, Restatement of Consolidated Financial Statements, in the Notes to Consolidated Financial Statements.

Revenues

2006 vs. 2005

Total revenues for fiscal 2006 increased $34.7 million, or 11.1%, as compared to fiscal 2005. The increase is the result of a $7.2 million, or 4.3%, increase in software license fee revenues, a $10.2 million, or 10.9%, increase in maintenance fee revenues, and a $17.3 million, or 33.6%, increase in services revenues. Included in fiscal 2006 results, with no corresponding amount in fiscal 2005, was approximately $2.9 million in eps related revenue.

The majority of the revenue increase resulted from revenue growth in international markets, primarily in the EMEA region, with an increase of $21.5 million, or 19.5%, over 2005. Revenues from the Americas region increased by $11.7 million, or 6.9%, and revenues from the Asia/Pacific region increased by $1.5 million, or 4.4%.

The increases in software license fee revenues for 2006 are primarily due to the completion of several large implementation projects that resulted in software license fee revenue recognition and increased revenues for the Company s Retail Payment Engines and Cross Industry Solutions product lines.

The comparative increases in maintenance fee revenues during both fiscal 2006 and fiscal 2005 were primarily due to growth in the installed base of software products as well as maintenance fee revenues recognized from S2 products during the year. Maintenance fee revenue recognized during the year partly reflects the recognition of acquired deferred maintenance amounts which have been reduced to cost, plus a normal profit margin, as required under Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Issue No. 01-03, *Accounting in a Business Combination for Deferred Revenue of an Acquiree*. In addition, maintenance fee revenues of $0.4 million were recognized from eps products during fiscal 2006.

The increases in services revenues for fiscal year 2006, as compared to fiscal 2005, resulted primarily from the recognition of previously deferred services revenues for several large projects which were completed during the year, as well as services revenues recognized from S2 products. In addition, services revenues of $2.1 million were recognized from eps products during fiscal 2006. For some of our contracts, including certain S2 contracts, services revenues are being recognized to the extent direct and incremental costs are incurred until such time that project profitability can be estimated. This revenue recognition treatment negatively impacted the margins on services revenues for the year.

2005 vs. 2004

Total revenues for fiscal 2005 increased by $20.4 million, or 7.0%, as compared to fiscal 2004. The increase is the result of an $11.0 million, or 7.0%, increase in software license fee revenues, a $5.0 million, or 5.7%, increase in maintenance fee revenues, and a $4.4 million, or 9.4%, increase in services revenues. Included in fiscal 2005 results, with no corresponding amount in fiscal 2004, was approximately $2.4 million in S2 related revenues.

For fiscal 2005 as compared to fiscal 2004, software license fee revenues increased by $11.0 million. This increase resulted from a sales mix during fiscal 2005 that was more heavily weighted toward the Retail Payment Systems product line, as well as recognition of previously-deferred revenues for several large projects that were completed during fiscal 2005, including software license fee revenue following customer acceptance of a significant BASE24-eps application.

The comparative increases in maintenance fee revenues during fiscal 2005 was primarily due to growth in the installed base of software products as well as maintenance fee revenues recognized from S2 products during the year.

The increase in services revenues during fiscal 2005 as compared to fiscal 2004 was primarily due to the recognition of previously-deferred services revenues for several large projects that were completed during fiscal 2005, with offsetting decreases in the Wholesale Payments product line. In addition, services revenues of $1.1 million were recognized from S2 products during fiscal 2005.

Expenses

2006 vs. 2005 (Restated)

Total operating expenses for fiscal 2006 increased $45.1 million, or 18.1%, as compared to fiscal 2005. Included in operating expenses with no corresponding amounts in fiscal 2005, were approximately $3.8 million in eps related expenses and $6.3 million in stock-based compensation. The effect of changes in foreign currency exchange rates was a decrease to overall expenses by approximately $1.9 million for fiscal 2006 as compared with fiscal 2005.

Cost of software license fees for fiscal 2006 increased by $6.5 million, or 26.2%, as compared to fiscal 2005. The increase was due to additional personnel assigned to support our PRM, Smart Card and BASE24-eps products as well as costs associated with additional personnel assigned to support these products following the previously discussed reorganization. The increase also resulted in expenses from eps of $0.7 million in fiscal 2006. In addition, stock-based compensation costs of $0.5 million, resulting from the adoption of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment*, (SFAS No. 123(R)) in fiscal 2006, were recognized during the fiscal year.

Cost of maintenance and services for fiscal 2006 increased $19.3 million, or 32.0%, as compared to 2005. The increase resulted from eps expenses of $1.6 million incurred during the last two quarters of fiscal 2006, additional expenses incurred related to prior acquisitions, and the recognition of previously deferred compensation-related expenses resulting from the completion of several large projects during the year. For these projects, revenues previously recognized were being deferred until acceptance or first production use of the software, and the associated costs, including compensation-related expenses, were being deferred until the related services revenue was recognized.

Research and development (R&D) costs increased $1.1 million, or 2.7%, in fiscal 2006 as compared to fiscal 2005, primarily as a result of an increased number of personnel assigned to R&D activities.

Selling and marketing costs increased $1.1 million, or 1.7%, in fiscal 2006 as compared to fiscal 2005. The increase was primarily due to higher sales commissions and other costs resulting from strong sales during the year. In addition, stock-based compensation costs of $0.3 million, resulting from adoption of SFAS No. 123(R) in fiscal 2006, were recognized during the fiscal year.

General and administrative costs for fiscal 2006 increased $8.8 million, or 14.9%, as compared to fiscal 2005. The increase was due to stock-based compensation costs of $3.9 million recognized during the year resulting from the adoption of SFAS No. 123(R), severance costs related to two reorganizations that were effected during the year (see Note 9, Corporate Restructuring and Other Reorganization Charges in the Notes to Consolidated Financial Statements for further detail), increased costs resulting from globalization initiatives and additional compensation and benefit costs.

We also recorded an expense of $8.5 million in connection with the recently announced settlement of the class action suit.

2005 (Restated) vs. 2004 (Restated)

Total operating expenses for fiscal 2005 increased $10.5 million, or 4.4%, as compared to fiscal 2004. Included in fiscal 2005 operating expenses, with no corresponding amounts in fiscal 2004, were approximately $3.8 million in S2 related expenses and $1.3 million in charges resulting from a reorganization of our business units.

Cost of software license fees decreased $0.4 million, or 1.5%, for fiscal 2005 as compared to fiscal 2004. The decrease was primarily attributable to higher commissions paid to distributors of our products during fiscal 2004. However, we experienced increased expenses surrounding customizations and/or enhancements of our newer software products during fiscal 2005, resulting in higher costs in fiscal 2005 as compared to fiscal 2004, which offset some of the year-to-date benefits received from the decrease in distributor commission costs.

Cost of maintenance and services for fiscal 2005 increased $3.0 million, or 5.2%, as compared to fiscal 2004. The comparative increase resulted primarily from $3.4 million in costs incurred to support the S2 products and higher expenses in fiscal 2005 resulting from changes in foreign currency exchange rates, offset by a reduction in compensation related expenses resulting from the shift of certain personnel to installation services associated with increasing sales of newer products such as our BASE24-eps product, for which revenues are being deferred until acceptance or first production use and the associated costs are capitalized and subsequently expensed when the related services revenue recognition occurs.

R&D costs for fiscal 2005 increased $1.7 million, or 4.4%, as compared to fiscal 2004. The increase was primarily due to increased personnel assigned to R&D activities, as well as higher expenses in fiscal 2005 that resulted from changes in foreign currency exchange rates.

Selling and marketing costs increased $4.5 million, or 7.3%, in fiscal 2005 as compared to fiscal 2004. The increase was primarily due to higher expenses in fiscal 2005 resulting from commissions due on strong sales, changes in foreign currency exchange rates, primarily in the EMEA region, increases in travel-related expenses and $0.5 million in fiscal 2005 restructuring charges.

General and administrative costs for fiscal 2005 increased $1.8 million, or 3.1%, as compared to fiscal 2004. The increase was primarily due to increased professional fees related to legal services, internal controls compliance testing, and other corporate level strategic planning costs. Reduced costs of director and officer liability insurance offset some of the increase in professional fees.

Other Income and Expense

Interest income for fiscal 2006 increased $4.0 million, or 103.6%, as compared to fiscal 2005. Interest income for fiscal 2005 increased $2.1 million, or 118.1%, as compared to fiscal 2004. The increase in interest income during fiscal 2006 as compared to fiscal 2005 is attributable to interest income of $1.9 million on a refund of income taxes as well as increases in interest rates and global consolidation of excess cash amounts into higher yielding investments. The increase in interest income in 2005 as compared to 2004 is attributable to higher average cash balances and marketable securities balances, marginal increases in interest rates, and global consolidation of excess cash amounts into higher yielding investments.

Interest expense for fiscal 2006 decreased $0.3 million, or 63.7%, as compared to fiscal 2005. Interest expense for fiscal 2005 decreased $0.9 million, or 64.5%, as compared to fiscal 2004. Scheduled payments of debt under financing agreements continued to be made during fiscal 2006, which decreased outstanding debt balances and corresponding interest expense. As discussed in Note 8, Debt in the Notes to Consolidated Financial Statements, we entered into a long term credit facility agreement with aggregate available borrowings of $150 million under which $75 million was outstanding as of September 30, 2006.

Other income and expense consists of foreign currency gains and losses, and other non-operating items. Other expense for fiscal 2006 was $0.5 million as compared to other expense for fiscal 2005 of $1.7 million. Comparative changes in other income and expense amounts were primarily attributable to fluctuating currency rates which impacted the amounts of foreign currency gains or losses recognized by us during the respective fiscal years. We realized $0.2 million in net foreign currency losses during fiscal 2006 as compared with $1.4 million in net losses during fiscal 2005 and net gains of $2.6 million in fiscal 2004.

Income Taxes

The effective tax rates for fiscal 2006, 2005 and 2004 were approximately 9.1%, 34.6% and 18.6%, respectively. There are a number of items which impact our effective tax rate each year and the most significant of those items are discussed in the following paragraphs. Our effective tax rate each year also varies from our federal statutory rate because we operate in multiple foreign countries where we apply their tax laws and rates which vary from those that we apply to the income we generate from our domestic operations.

In fiscal 2006, our effective tax rate was lower than fiscal 2005 because we completed the federal tax audit for fiscal years 1997 through 2003 in that year and we released a valuation reserve we had previously established on our foreign tax credit carry forwards. With the final settlement of the federal tax audit we released all accruals and tax contingencies for those years resulting in a 6.4% reduction in the effective tax rate. In fiscal 2006, we were able to utilize significant foreign tax credits and based on this fact, as well as our estimates of our ability to utilize the remaining foreign tax credits in future years we also released the valuation reserves related to our carryover general limitation foreign tax credits, resulting in a 20.7% decrease in the effective tax rate.

In fiscal 2004, the primary reason our effective tax rate was lower as compared to fiscal 2005 was the reorganization in fiscal 2004 of our MessagingDirect Ltd. subsidiary and its related entities which decreased the effective tax rate by 21.2% In fiscal 2005, there was no one event which significantly increased or decreased our effective tax rate; however, in that year the taxable income generated in foreign jurisdictions in fiscal 2005 was subject to a 2.9% lower rate in fiscal 2005 as compared to fiscal 2004.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2006, our principal sources of liquidity consisted of $110.1 million in cash, cash equivalents and marketable securities and $75.0 million of unused borrowings under our revolving credit facility. We had bank borrowings of $75.0 million outstanding under our revolving credit facility as of September 30, 2006. In December 2004, we announced that our board of directors approved a stock repurchase program authorizing us, from time to time as market and business conditions warrant, to acquire up to $80.0 million of our common stock. In May 2006, our board of directors approved an increase of $30.0 million to the stock repurchase program, bringing the total of the approved plan to $110.0 million. During fiscal 2006, we repurchased 1,217,645 shares of our common stock at an average price of $32.95 per share under this stock repurchase program. The maximum remaining dollar value of shares authorized for purchase under the stock repurchase program was $36.5 million as of September 30, 2006. We may also decide to use cash to acquire new products and services or enhance existing products and services through acquisitions of other companies, product lines, technologies and personnel, or through investments in other companies.

In March 2007, our board of directors approved an increase of $100 million to our current repurchase authorization, bringing the total authorization to $210 million. This increase in the repurchase program will be implemented as soon as we are able to amend our repurchase instructions in accordance with applicable laws, after we become compliant with our regulatory filings.

Under the program to date, we have purchased approximately 2.8 million shares for approximately $77.0 million. Purchases will be made from time to time as market and business conditions warrant, in open market, negotiated or block transactions, subject to applicable laws, rules and regulations.

In connection with funding the purchase of P&H, as discussed in Note 8, Debt in the Notes to Consolidated Financial Statements, on September 29, 2006, we entered into a five year revolving credit facility with a syndicate of financial institutions, as lenders, providing for revolving loans and letters of credit in an aggregate principal amount not to exceed $150 million. We have the option to increase the aggregate principal amount to $200 million. The facility has a maturity date of September 29, 2011. Obligations under the facility are unsecured and uncollateralized, but are jointly and severally guaranteed by certain of our domestic subsidiaries.

We may select either a base rate loan or a LIBOR based loan. Base rate loans are computed at the national prime interest rate plus a margin ranging from 0% to 0.125%. LIBOR based loans are computed at the applicable LIBOR rate plus a margin ranging from 0.625% to 1.375%. The margins are dependent upon our total leverage ratio at the end of each quarter.

On October 5, 2006, we exercised our right to convert the rate on our initial borrowing to the LIBOR based option, thereby reducing the effective interest rate to 6.12%. There is also an unused commitment fee to be paid annually of 0.15% to 0.3% based on our leverage ratio. The initial principal borrowings of $75 million were outstanding at September 30, 2006. There is $75 million remaining under the credit facility for future borrowings.

The credit facility contains certain affirmative and negative covenants including certain financial measurements. The facility also provides for certain events of default. The facility does not contain any subjective acceleration features and does not have any required payment or principal reduction schedule and is included as a non-current liability in our consolidated balance sheet.

We have previously obtained certain extensions and may continue to seek additional extensions under our credit facilities. The extensions waive certain potential breaches of representations and covenants under our credit facilities and establish the extended deadlines for the delivery of certain financial reports. Our current extensions under the credit facilities expire on May 16, 2007 for our annual financial statements, the extensions for our quarterly financial statements for the fiscal quarter ended December 31, 2006 expire the earlier of (i) 45 days after delivery of our annual financial statements, and (ii) July 2, 2007, and the extensions for our quarterly financial statements for the fiscal quarter ended March 31, 2007 expire the earlier of (i) 45 days after delivery of our quarterly financial statements for the fiscal quarter ended December 31, 2006, and (ii) August 16, 2007 and the extensions for our quarterly financial statements for the fiscal quarter ended June 30, 2007 expire the earlier of (i) 45 days after delivery of our quarterly financial statements for the fiscal quarter ended March 31, 2007, and (ii) October 1, 2007. We may not be able to deliver our quarterly financial statements for the first quarter of fiscal 2007 within the extended period, which may impact whether we are able to file our quarterly results for the second and third quarters of fiscal 2007 within the extended periods, and therefore, we may seek additional extensions under the credit facilities.

Net cash flows provided by operating activities in fiscal 2006, 2005 and 2004 were $60.7 million, $53.2 million and $58.1 million, respectively. The increase in operating cash flows in fiscal 2006 as compared to fiscal 2005 resulted primarily from increased net income along with the receipt of a cash refund of $10.9 million, including interest, in February 2006 related to the settlement of the IRS audit of tax years 1997 through 2003. This was offset by changes in billed and accrued receivables, deferred revenues, accounts payable, accrued employee compensation, and other assets. The decrease in operating cash flows in fiscal 2005 as compared to fiscal 2004 resulted primarily from decreased net income, along with changes in billed and accrued receivables and deferred revenues, offset by increases in operating cash flows resulting from changes in recoverable income taxes.

Net cash flows used in investing activities in fiscal 2006, 2005 and 2004 were $79.4 million, $79.4 million and $2.9 million, respectively. In fiscal 2006, we generated cash of $72.8 million by decreasing our net holdings of marketable securities, and used cash of $146.3 million in the acquisition of businesses (eps and P&H), and $5.9 million to purchase software, property and equipment. In fiscal 2005, we used cash to increase our net holdings of marketable securities by $37.4 million, used $36.6 million to acquire the business of S2 (including $35.7 million paid to owners of S2 as well as acquisition-related expenses), and purchased $5.4 million of software, property and equipment. In fiscal 2004, we purchased $3.9 million of software, property and equipment, and reduced our holdings of marketable securities by $1.0 million.

Our net cash flows provided by (used in) financing activities were $45.2 million, ($24.8) million and ($2.8) million in fiscal 2006, 2005 and 2004, respectively. In fiscal 2006, we incurred $75.0 million of debt under our revolving credit facility in connection with the P&H acquisition, used cash of $39.7 million to purchase shares of our common stock under our stock repurchase program, made payments to third-party financial institutions for debt and capital lease payments totaling $3.8 million, and received proceeds of $14.0 million, including corresponding excess tax benefits, from exercises of stock options. In fiscal 2005, we used cash of $33.0 million to purchase shares of our common stock under our stock repurchase program, made scheduled payments to third-party financial institutions totaling $7.3 million, and received proceeds of $14.1 million from exercises of stock options. In fiscal 2004, we made scheduled payments to third-party financial institutions totaling $16.4 million and received proceeds of $13.1 million from exercises of stock options.

We also realized an increase in cash of $0.03 million, $0.5 million and $2.9 million during fiscal 2006, 2005 and 2004, respectively, due to foreign exchange rate variances.

We believe that our existing sources of liquidity, including cash on hand, marketable securities and cash provided by operating activities, will satisfy our projected liquidity requirements for the foreseeable future.

Quarterly Results

The selected quarterly information has been restated for all quarters of fiscal 2005 and the third quarter of 2006 from previously reported information filed on Form 10-Q and Form 10K, as a result of our restatement of our financial results discussed in this 2006 10-K. Amounts presented are in thousands, except per share data:

	Quarter Ended			
2006	**Sept. 30, 2006 (1)**	**June 30, 2006 Restated (2)**	**March 31, 2006**	**Dec. 31, 2005**
Revenues:				
Software license fees	$ 42,552	$ 41,955	$ 47,730	$ 43,392
Maintenance fees	27,655	25,989	24,746	25,318
Services	18,023	16,820	17,357	16,365
Total revenues	88,230	84,764	89,833	85,075
Expenses:				
Cost of software license fees	8,789	7,895	7,505	6,935
Cost of maintenance and services	20,289	19,385	19,056	20,891
Research and development	10,847	10,191	9,978	9,752
Selling and marketing	18,284	15,896	16,529	16,012
General and administrative	19,030	15,877	15,563	16,970
Settlement of class action litigation	8,450			
Total expenses	85,689	69,244	68,631	70,560
Operating income	2,541	15,520	21,202	14,515
Other income (expense):				
Interest income	1,671	1,641	1,586	2,927
Interest expense	(59)	(10)	(87)	(29)
Other, net	(304)	(227)	354	(366)
Total other income (expense)	1,308	1,404	1,853	2,532
Income before income taxes	3,849	16,924	23,055	17,047
Income tax (provision) benefit	(1,189)	5,605	(8,069)	(1,857)
Net income	$ 2,660	$ 22,529	$ 14,986	$ 15,190
Earnings per share				
Basic	$ 0.07	$ 0.60	$ 0.40	$ 0.41
Diluted	$ 0.07	$ 0.59	$ 0.39	$ 0.40

(1) Net income for the fourth quarter of 2006 includes an $8.5 million charge related to the settlement of class action litigation. The effective tax rate for the fourth quarter of 2006 was primarily impacted by the adjustment of cumulative deferred tax balances, the differential between tax effecting income at the statutory federal tax rate in the U.S. and certain foreign jurisdictions in which we operate, offset by an increase in nontaxable municipal interest and a decrease in valuation allowances.

(2) As a result of errors discovered in our reconciliation of deferred tax accounts, we recorded an entry to correct a deferred tax benefit that was previously recognized during the quarter ended June 30, 2006.

2005	Quarter Ended Sept. 30, 2005 Restated (1)	June 30, 2005 Restated (1)	March 31, 2005 Restated (1)	Dec. 31, 2004 Restated (1)
Revenues:				
Software license fees	$ 40,007	$ 37,656	$ 42,953	$ 47,806
Maintenance fees	23,834	24,938	22,649	22,080
Services	15,161	15,409	10,024	10,720
Total revenues	79,002	78,003	75,626	80,606
Expenses:				
Cost of software license fees	6,483	6,542	5,730	5,911
Cost of maintenance and services	18,581	14,101	13,818	13,836
Research and development	9,844	9,705	10,223	9,916
Selling and marketing	18,752	16,186	15,370	15,305
General and administrative	14,259	16,322	14,487	13,615
Total expenses	67,919	62,856	59,628	58,583
Operating income	11,083	15,147	15,998	22,023
Other income (expense):				
Interest income	1,116	1,279	864	584
Interest expense	(103)	(102)	(137)	(168)
Other, net	(236)	(453)	255	(1,247)
Total other income (expense)	777	724	982	(831)
Income before income taxes	11,860	15,871	16,980	21,192
Income tax provision	(2,767)	(5,904)	(5,820)	(8,313)
Net income	$ 9,093	$ 9,967	$ 11,160	$ 12,879
Earnings per share				
Basic	$ 0.24	$ 0.27	$ 0.29	$ 0.34
Diluted	$ 0.24	$ 0.26	$ 0.29	$ 0.33

(1) Includes adjustments for additional stock compensation expense pursuant to APB Opinion No. 25 and related interpretations.

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The following tables present the effects of the adjustments made to our previously reported quarterly financial information during fiscal 2006 and 2005 (in thousands, except per share amounts):

	Three Months Ended June 30, 2006		
	Previously Reported	Adjustments	As Restated
Revenues:			
Software license fees	$ 41,955	$	$ 41,955
Maintenance fees	25,989		25,989
Services	16,820		16,820
Total revenues	84,764		84,764
Expenses:			
Cost of software license fees	7,895		7,895
Cost of maintenance and services	19,385		19,385
Research and development	10,191		10,191
Selling and marketing	15,896		15,896
General and administrative	15,877		15,877
Total expenses	69,244		69,244
Operating income	15,520		15,520
Other income (expense):			
Interest income	1,641		1,641
Interest expense	(10)		(10)
Other, net	(227)		(227)
Total other income	1,404		1,404
Income before income taxes	16,924		16,924
Income tax benefit	6,384	(779) A	5,605
Net income	$ 23,308	$ (779)	$ 22,529
Earnings per share			
Basic	$ 0.62	$ (0.02) A	$ 0.60
Diluted	$ 0.61	$ (0.02) A	$ 0.59

A: As a result of errors discovered in our reconciliation of deferred tax accounts, we recorded an entry to correct a deferred tax benefit that was previously recognized during the quarter ended June 30, 2006.

	Three Months Ended September 30, 2005			
	Previously Reported	Adjustments		As Restated
Revenues:				
Software license fees	$ 40,007	$		$ 40,007
Maintenance fees	23,834			23,834
Services	15,161			15,161
Total revenues	79,002			79,002
Expenses:				
Cost of software license fees	6,478	5	A	6,483
Cost of maintenance and services	18,580	1	A	18,581
Research and development	9,844			9,844
Selling and marketing	18,748	4	A	18,752
General and administrative	14,211	48	A	14,259
Total expenses	67,861	58		67,919
Operating income	11,141	(58)		11,083
Other income (expense):				
Interest income	1,116			1,116
Interest expense	(103)			(103)
Other, net	(236)			(236)
Total other income	777			777
Income before income taxes	11,918	(58)		11,860
Income tax provision	(2,783)	16	B	(2,767)
Net income	$ 9,135	$ (42)		$ 9,093
Earnings per share				
Basic	$ 0.25	$ (0.01)		$ 0.24
Diluted	$ 0.24	$		$ 0.24

A: Adjustment for additional stock compensation expense pursuant to APB Opinion No. 25 and related interpretations.

B: Adjustment to the tax provision arising from the additional stock compensation expense.

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	Three Months Ended June 30, 2005		
	Previously Reported	Adjustments	As Restated
Revenues:			
Software license fees	$ 37,656	$	$ 37,656
Maintenance fees	24,938		24,938
Services	15,409		15,409
Total revenues	78,003		78,003
Expenses:			
Cost of software license fees	6,539	3 A	6,542
Cost of maintenance and services	14,102	(1) A	14,101
Research and development	9,704	1 A	9,705
Selling and marketing	16,183	3 A	16,186
General and administrative	16,289	33 A	16,322
Total expenses	62,817	39	62,856
Operating income	15,186	(39)	15,147
Other income (expense):			
Interest income	1,279		1,279
Interest expense	(102)		(102)
Other, net	(453)		(453)
Total other income	724		724
Income before income taxes	15,910	(39)	15,871
Income tax provision	(5,915)	11 B	(5,904)
Net income	$ 9,995	$ (28)	$ 9,967
Earnings per share			
Basic	$ 0.27	$	$ 0.27
Diluted	$ 0.26	$	$ 0.26

A: Adjustment for additional stock compensation expense pursuant to APB Opinion No. 25 and related interpretations.

B: Adjustment to the tax provision arising from the additional stock compensation expense.

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	Three Months Ended March 31, 2005		
	Previously Reported	Adjustments	As Restated
Revenues:			
Software license fees	$ 42,953	$	$ 42,953
Maintenance fees	22,649		22,649
Services	10,024		10,024
Total revenues	75,626		75,626
Expenses:			
Cost of software license fees	5,725	5 A	5,730
Cost of maintenance and services	13,818		13,818
Research and development	10,223		10,223
Selling and marketing	15,368	2 A	15,370
General and administrative	14,449	38 A	14,487
Total expenses	59,583	45	59,628
Operating income	16,043	(45)	15,998
Other income (expense):			
Interest income	864		864
Interest expense	(137)		(137)
Other, net	255		255
Total other income	982		982
Income before income taxes	17,025	(45)	16,980
Income tax provision	(5,832)	12 B	(5,820)
Net income	$ 11,193	$ (33)	$ 11,160
Earnings per share			
Basic	$ 0.29	$	$ 0.29
Diluted	$ 0.29	$	$ 0.29

A: Adjustment for additional stock compensation expense pursuant to APB Opinion No. 25 and related interpretations.

B: Adjustment to the tax provision arising from the additional stock compensation expense.

	Three Months Ended December 31, 2004			
	Previously Reported	**Adjustments**		**As Restated**
Revenues:				
Software license fees	$ 47,806	$		$ 47,806
Maintenance fees	22,080			22,080
Services	10,720			10,720
Total revenues	80,606			80,606
Expenses:				
Cost of software license fees	5,906	5	A	5,911
Cost of maintenance and services	13,836			13,836
Research and development	9,915	1	A	9,916
Selling and marketing	15,301	4	A	15,305
General and administrative	13,563	52	A	13,615
Total expenses	58,521	62		58,583
Operating income	22,085	(62)		22,023
Other income (expense):				
Interest income	584			584
Interest expense	(168)			(168)
Other, net	(1,247)			(1,247)
Total other income (expense)	(831)			(831)
Income before income taxes	21,254	(62)		21,192
Income tax provision	(8,331)	18	B	