1997 TSA Annual Report Contents

10K FINANCIAL INFORMATION
A link to the 10K financial Information.

FINANCIAL HIGHLIGHTS

In Thousands, Except Per Share Amounts Year Ended September 30	1997	1996
Revenues	$215,466	$166,367
Operating Income	36,668	23,262
Net Income	23,059	14,184
Net Income Per Share	0.80	0.50
Earnings Before Interest, Taxes, Depreciation and Amortization	46,438	33,198

As of September 30

Working Capital	$ 59,270	$ 40,391
Total Assets	165,234	125,897
Long-term Obligations	2,379	1,687
Stockholders' Equity	104,038	76,177
Backlog	141,400	104,978

SUPPLEMENTAL INFORMATION

In Thousands, Except Per Share Amounts Year Ended September 30	1997	1996	1995	%Change 1996 to 1997
Revenues	$215,466	$166,367	$121,403	30
Pro Forma Operating Income	37,519	26,605	16,318	41

Pro Forma Net Income	23,826	17,159	10,698	39
Pro Forma Net Income Per Share	0.83	0.60	0.40	38

LETTER TO SHAREHOLDERS

My mom won't use an ATM. She doesn't bank by telephone or PC. She doesn't know what a smart card is. She knows this is my business, of course, and I am her only son, but she's still not comfortable with the technology. "I'd rather go to the bank," she says. My three sons, on the other hand, are all too familiar with the convenience of ATMs and credit cards. And that about sums it up. The contrast in generations is just that, black and white.

TSA CEO William Fisher notes.
"My mom (shown above) won't use an ATM. My sons (Pat, Bill, and Tom pictured below) can't imagine life without ATMs and other electronic payments technologies. It is exactly this generational shift in behavior that drives the growth of our business."

TSA's business exploits this generational shift in payments preferences and payments technology. I'm an early baby boomer, and my generation fueled the global acceptance of ATM technology. However, I have friends who still won't put money in an ATM — they'll only make withdrawals. Today's children have no fear when it comes to technology. They embrace electronic transactions, and they are tomorrow's biggest proponents of solutions that depend on TSA software.

In 69 countries we are positioning ourselves as the leading provider of electronic payments software for banks, retailers and other enterprises needing high-volume, reliable processing engines seven days a week, 24 hours a day. We provide the software that drives large banks' ATM and point-of-sale networks. We develop the software that enables my sons to buy sports gear over the Internet or transfer money from my savings to their checking accounts. TSA's software runs complex systems in banks that automatically deposit your paycheck every month. We also support card payment systems for large merchants and provide messaging software for stock exchanges and telecommunications companies.

Our corporate culture values growth, creativity, a solid work ethic and customer-centric thinking. Although we're a software company, our financial model makes us look more like a transaction processor — with recurring revenue from software products priced on transaction volume and monthly license fees, and a healthy backlog of contracted but not yet recognized revenue, which smoothes out many of the financial bumps of a growing high-tech business.

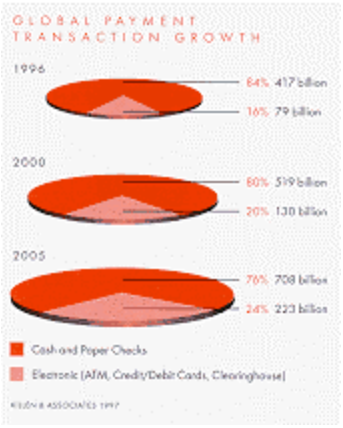
Headquartered in Omaha, Nebraska, with offices in Singapore, London and more than a dozen other cities, TSA's 1,500+ employees develop, market, install and support software systems for more than 1,600 customers. We advocate proven technology and best-of-breed solutions for our risk-averse, uncompromising customers.

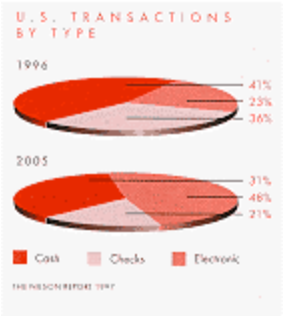
The contrast between my mom and my sons couldn't be clearer. New generations that take computers, ATMs, smart cards and the Internet for granted are driving the growth of electronic payments technology around the world. This generational shift fuels the promise of stability and growth we offer our shareholders.

William E. Fisher
Chairman, President and CEO
Transaction Systems Architects

NEW GENERATION - NEW MONEY

It has been a long time since money itself has been something of value — a bar of iron, a ringlet of jade, an ingot of bronze or gold. In the world today, money represents value, whether that representation is a piece of colored paper, a row of figures in a ledger book, bytes of data in a database or bits on a smart card.





Now try telling people who lived through the Great Depression in the United States that they are not getting a paper pension check anymore — from now on their payments will be in the form of an electronic data file that automatically updates their bank account each month. Tell them this will reduce costs and increase accuracy. Tell them they can still have a paper check mailed to them, but they'll be charged an additional fee. Then advise them that their chances of loss, theft or fraud are reduced to near zero with electronic transfer. Tell them all these things and the chances are pretty good that quite a few of them will still insist on a paper check.

Regardless of greater convenience, security and economy, many people of this older generation will not embrace electronic payments, and they will not change. However, just as surely and with just as much conviction, people of the next generation will insist on electronic payments as the only reliable means of moving and using their money.

This demographic shift is already taking place around the world. In 1996, out of a global total of 496 billion payment transactions, 16 percent were electronic.

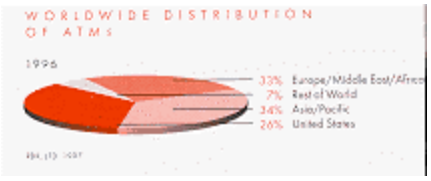
involving ATMs, credit/debit cards and automated clearinghouse systems. By 2005, the total number of payment transactions is projected to more than double to over 930 billion, with electronic transactions estimated to comprise nearly a quarter of the total.

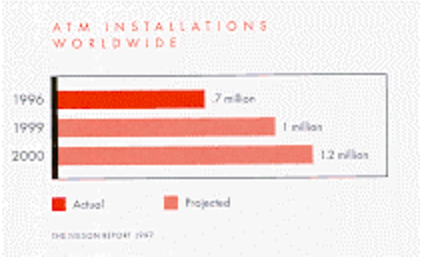
This ongoing shift has supported the rapid growth of Transaction Systems Architects, Inc. and will continue to do so. The TSA companies, Applied Communications, Inc., USSI, Inc., Crystal Clear Technology, Inc., and Grapevine Systems, Inc., develop, market, install and support software that facilitates electronic commerce. Applied Communications, Inc., which began operations in 1975, specializes in electronic payments and authorization solutions for Compaq/ Tandem computers. ACI's BASE24 software is the most widely used vendor-supplied transaction processing software in the world. USSI, Inc. provides card management/settlement and networking solutions for a variety of mission-critical platforms including RISC/UNIX and mainframes. Crystal Clear Technology, Inc. offers Windows NT solutions for Internet banking and fraud control that surround and extend TSA's other electronic payment solutions. And Grapevine Systems, Inc. provides solutions that monitor complex financial processing systems and networks for large institutions. Solutions from all the TSA companies are provided through three distribution channels: Americas, Europe/Middle East/Africa, and Asia/Pacific.

Investments in new product research and development and in geographic expansion position TSA for growth as the world becomes more and more electronic.

IN THE BEGINNING - THE ATM

Imagine a time when no automated teller machines existed. Regardless of your age, it may be difficult. We've grown accustomed to having





Fifteen years ago, one of TSA's core companies, Applied Communications, Inc., developed a robust software package called BASE24 that made dependable, high-volume electronic transaction authorization via ATMs a reality. Since then ATMs have evolved from futuristic novelties to financial service centers so convenient and reliable that many people find them indispensable. Worldwide, the ATM population is projected to top 1 million by 1999, reaching almost 1.2 million by the end of 2000. In 1997, there were 165,000 ATMs in the U.S. alone, and ATM networks were reporting more than 13 percent annual transaction growth. The average U.S. household uses an ATM card more than 12 times a month.

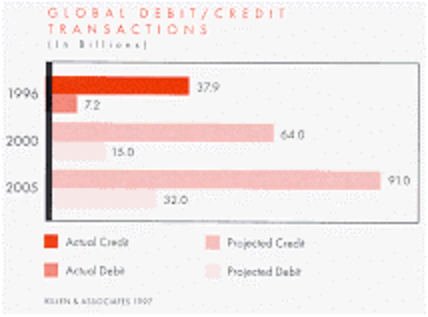
Operators of ATM networks require solutions that give them the flexibility to meet this growing demand for increased access and new services. TSA has worked with some of the largest operators of ATM networks, replacing their home-grown systems with solutions which help the networks keep pace with increasingly complex systems. TSA solutions not only give networks growth potential, but also provide quick time to market for value-added services such as account statements, transaction reports, multiple-language instruction options, and cash-back and non-currency dispense transactions. Institutions worldwide recognize these benefits as 108 — of the world's top 500 banks, use at least one TSA product.

Many of these banks operate in a business climate where mergers and acquisitions are constant considerations. During the fourth quarter of fiscal year 1997, 25 bank mergers took place in the U.S., 12 of which involved TSA clients. In 10 of those 12 mergers, TSA's software was being used by the acquiring institution. In the two other cases, TSA's software was in use at both institutions. These mergers often create complex networks and, because our products are built for high-performance environments, we can often help the banks faced with the challenges of merging systems. This activity, combined with the tendency for large institutions to move from home-grown systems to vendor-supplied transaction processing solutions when the opportunity arises, means that TSA is well-positioned for this dynamic business climate.

The acceptance of ATMs by an entire generation of consumers helped spur the growth of TSA into a company with more than 1,600 customers in 69 countries around the world. But ATMs were just the beginning — since their introduction, new technologies have fostered new electronic transaction options, and TSA has leveraged its expertise to take advantage of those options, wherever and whenever they have occurred.

THE ELECTRONIC FRONTIER - CLEARED AND SETTLED

Using your credit or debit card these days is simple. Pass it through a point-of-sale (POS) device, and your purchase is authorized in seconds. It's so simple, in fact, that in 1996 there were more than 45 billion debit and credit card transactions worldwide. By 2005, this volume is projected to reach 123 billion transactions — all without the exchange of a single piece of printed or minted currency. (Killen & Associates 1997)



TSA is instrumental in making these transactions possible, but we are not a credit card processing company. The software of TSA companies — Applied Communications, Inc., USSI, Inc., Grapevine Systems, Inc., and Crystal Clear Technology, Inc. — typically runs on highly available computer systems at the bank, financial institution or large retailer. TSA solutions route and authorize transactions received electronically from nearly any source — POS and check authorization devices, ATMs, in-store computer systems, personal computers via private network or over the Internet, and back-office systems of other banks.

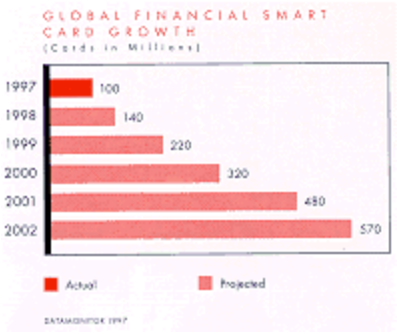
The frontier that TSA helped open with its software has become a thriving marketplace supporting electronic transactions of an ever-increasing variety. Here you'll find transactions involving credit cards, debit cards, smart cards, home banking services, wire transfers, automated clearing and settlement, and more. As the volume of these transactions increases, the use of cash and checks will be reduced. This is more than a trend — it is the inevitable result of the generational shift that fuels TSA's growth.

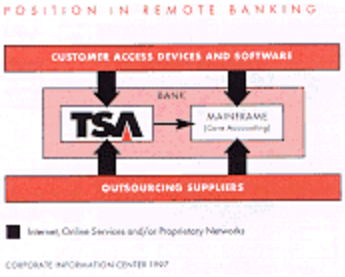
These increasing transaction volumes contribute substantially to TSA revenues as our existing customers purchase additional capacity, pay maintenance and monthly license fees, and license new products and technical services. Our customers are responding to the burgeoning demand for products and services that provide people

with access to their money 24 hours a day.

THE THIRD WAVE - WIRING THE GLOBAL VILLAGE

Computers talking to computers. Networks are the heart of modern electronic commerce, and the connections are of every size and shape. From personal digital assistants, Web TVs and home PCs to wide area networks and mainframes, critical business information is exchanged every second on a worldwide basis.





Thanks to our years of experience, TSA is a global leader in facilitating that exchange. Our solutions began with software for Tandem computers — seven day a week, 24 hours a day, highly reliable machines used by financial institutions to handle mission-critical transactions in large volumes. Soon new network paradigms arose, and TSA not only helped bridge the barriers between platforms and systems, but also became a leader in monitoring and managing large, heterogeneous networks. And while Tandem systems are still the platforms of choice for large, mission-critical applications, TSA's Crystal Clear Technology company is leveraging the abilities of Windows NT systems with new solutions designed to take advantage of NT's strengths in the transaction processing arena.

TSA is pursuing all this activity to ensure that our customers are able to process transactions from any source, regardless of their back-office system or network configuration. Reliable and secure processing is mandatory in today's marketplace, especially as the market expands to include the growth of transactions from smart

cards, remote banking and the Internet.

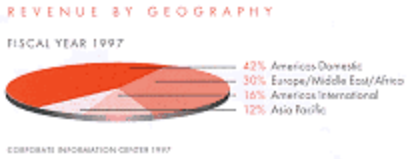
Programs all over the world are making "smart card" a household word. TSA is involved in the successful Chipper and GeldKarte programs in Holland and Germany, as well as pilot programs with VISA Cash, Mondex/MasterCard, and ICC in the United Kingdom. TSA's work with the ICC project is helping establish a national credit and debit program using smart card technology and globally agreed standards. These groundbreaking programs are paving the way for global acceptance of smart cards as a proven fraud-control mechanism and as a cash supplement.

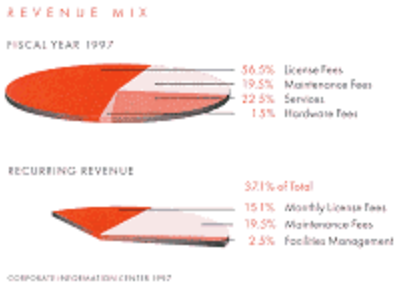
Remote banking is increasing in popularity with the growth of personal computer ownership. Projections indicate that 13 million U.S. households will have PC banking capabilities by the year 2000. Spurred by this change, the industry is addressing the issues of bill presentment that will drive growth in this sector. As succeeding generations grow up with computers at home, in classrooms, at work and even in their pockets, remote banking will become as commonplace as using the ATM today. TSA's remote banking customers are experiencing ever-increasing transaction volumes, and TSA solutions are helping them prepare for the growth.

Along with smart cards and remote banking, the Internet is opening a new arena in electronic transactions. In just a few short years, the Internet has gone from a communications medium used by the U.S. Department of Defense to a global phenomenon of interactive commerce. The Internet's market potential is just now being tapped, but it is certain that in the next few years, electronic commerce will find itself very much at home on the Internet. TSA will help make it possible by providing software to act as a premier transaction processing engine.

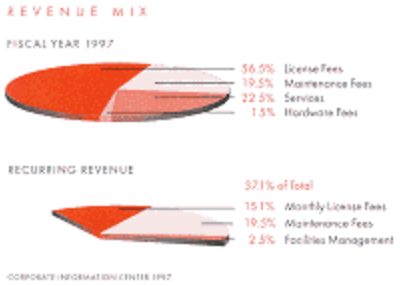
A 20 - YEAR JUMP ON TOMORROW

Not so long ago, the telephone, jet aircraft, television, automated teller machines and the Internet were all emerging technologies. Some companies saw an opportunity for quick returns on novelty products. Companies with foresight organized themselves to take these technologies into the future — a future in which once exotic





Over the past 20 years, the companies of Transaction Systems Architects, Inc. have helped make electronic payments processing an indispensable part of modern economic life. The result is an organization designed to take long-term advantage of the shift in electronic payments processing via a sound financial model, diversity of products and partnerships, and an established presence in high-growth areas.



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Financial Model

TSA's financial model, based on volume-sensitive pricing and monthly license fees, provides recurring revenue that is not typical among software companies. This model emphasizes the importance of our customer-centric focus and high customer retention rate and allows TSA to grow with the electronic payments marketplace.

As of our September 30 fiscal year end, our level of monthly license fees had reached an annual run rate of more than $35 million. This monthly license fee growth helped us achieve a pro forma operating income (excluding acquisition-related charges) of $37.5 million in fiscal year 1997, up from $26.6 million in 1996. Our operating margin in the fourth quarter of the fiscal year reached 18 percent.

We typically recognize revenue after our products are installed. This approach helps us maintain a rolling backlog of business that grew 35 percent in fiscal 1997, reaching $141.4 million as of September 30. TSA's backlog reflects contracted business that will be recognized over the next 12 months. This backlog consists of $46.9 million in non-recurring revenues and $94.5 million in recurring revenues. In fiscal year 1997 we had record revenues of $215.5 million, an increase of 29.5 percent over 1996. Cash from operating activities for the year totaled $30.6 million, up from $21.3 million. Cash balance at the end of September 1997 was $46.6 million.

Diversity

Geographically, TSA distinguishes itself from other companies through our international presence. Our solutions are used on more than 2,750 systems by more than 1,600 customers in 69 countries on six continents. In fiscal year 1997, 58 percent of our revenues came from outside the United States. While our Americas revenues grew a healthy 27 percent, our revenues in the Europe/Middle East/Africa region and the Asia/Pacific region were up 37 and 24 percent, respectively.

The TSA product set is as diverse as the electronic marketplace itself. TSA solutions help process transactions from nearly every payment source currently in use. As our

global customers position themselves in the marketplace, they have tremendous input into the types of solutions TSA provides to keep them competitive. The result is a suite of electronic transaction processing software designed to meet the needs of the leaders in the industry.

This emphasis on diversity also extends to our platform compatibility. Products from the TSA companies represent market-leading solutions running on Tandem, Unix, IBM mainframes and Windows NT systems. Products of the TSA companies also provide connectivity and networking solutions in large, heterogeneous networks.

TSA aligns itself with business partners that represent the industry's leaders. We work with hardware and device manufacturers and network/interchange companies around the world to ensure that our products are compatible with the broadest possible range of products.

Proactive Development

We believe in acting for our customers' benefit rather than reacting when it's too late. That's why TSA companies have been working to make January 1, 2000, just another day in the processing lives of our customers.

In December 1997, TSA announced the global deployment of Year 2000 (Y2K) compatible solutions. With this announcement, the majority of TSA company products are Y2K compatible, with completion of some earlier releases and regional products expected in 1998.

With the move to a single currency in Europe beginning in 1999, many financial institutions will begin to conduct certain aspects of their business in local currency and the new Euro. TSA's EMEA operation is investing in product enhancements that will allow banks to respond to this development by managing customer accounts in dual currencies.

Proven Value

The TSA companies began with the inception of electronic payments processing via the ATM. Applying proven principles refined over more than 20 years of experience, TSA has an established presence in a number of electronic payments processing areas with vast growth potential.

Among TSA's customers are some of the largest banks and retailers in the world. These businesses have already recognized the demographic shift spurring the rapid growth of electronic commerce, and they are facilitating the process by providing the services that their customers increasingly demand.

TSA's high customer retention rate shows that TSA solutions reliably and cost-effectively help these businesses meet their growing electronic transaction processing needs. And because of TSA's volume-sensitive financial model emphasizing monthly license fees and backlog, this demonstrated growth in electronic commerce means continued and steady growth for TSA.

Years of experience brought the TSA management team to this successful business philosophy, and TSA's employees provide the wide pool of expertise to carry it out consistently, year after year. It all adds up to value in a company that is an established presence in a vital and growing industry.

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David C. Russell Senior Vice President Transaction Systems Architects, Inc., and President and Chief Operating Officer Applied Communications, Inc.	David C. Russell Senior Vice President Transaction Systems Architects, Inc., and President and Chief Operating Officer Applied Communications, Inc.	Jeffery S. Hale Vice President — Product Company Applied Communications, Inc.
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Jim D. Kever President and Co-Chief Executive Officer ENVOY Corporation	Gregory J. Duman Chief Financial Officer and Treasurer Transaction Systems Architects, Inc.	Fred L. Grabher President Crystal Clear Technology, Inc.
Larry G. Fendley Executive Vice President CSG Systems, Inc.	Edward H. Mangold Senior Vice President — Americas Region Applied Communications, Inc.	Mark R. Vipond President USSI, Inc
	Thomas H. Boje Vice President — Europe, Middle East and Africa Region Applied Communications, Inc.	Stephen J. Royer President Grapevine Systems, Inc.