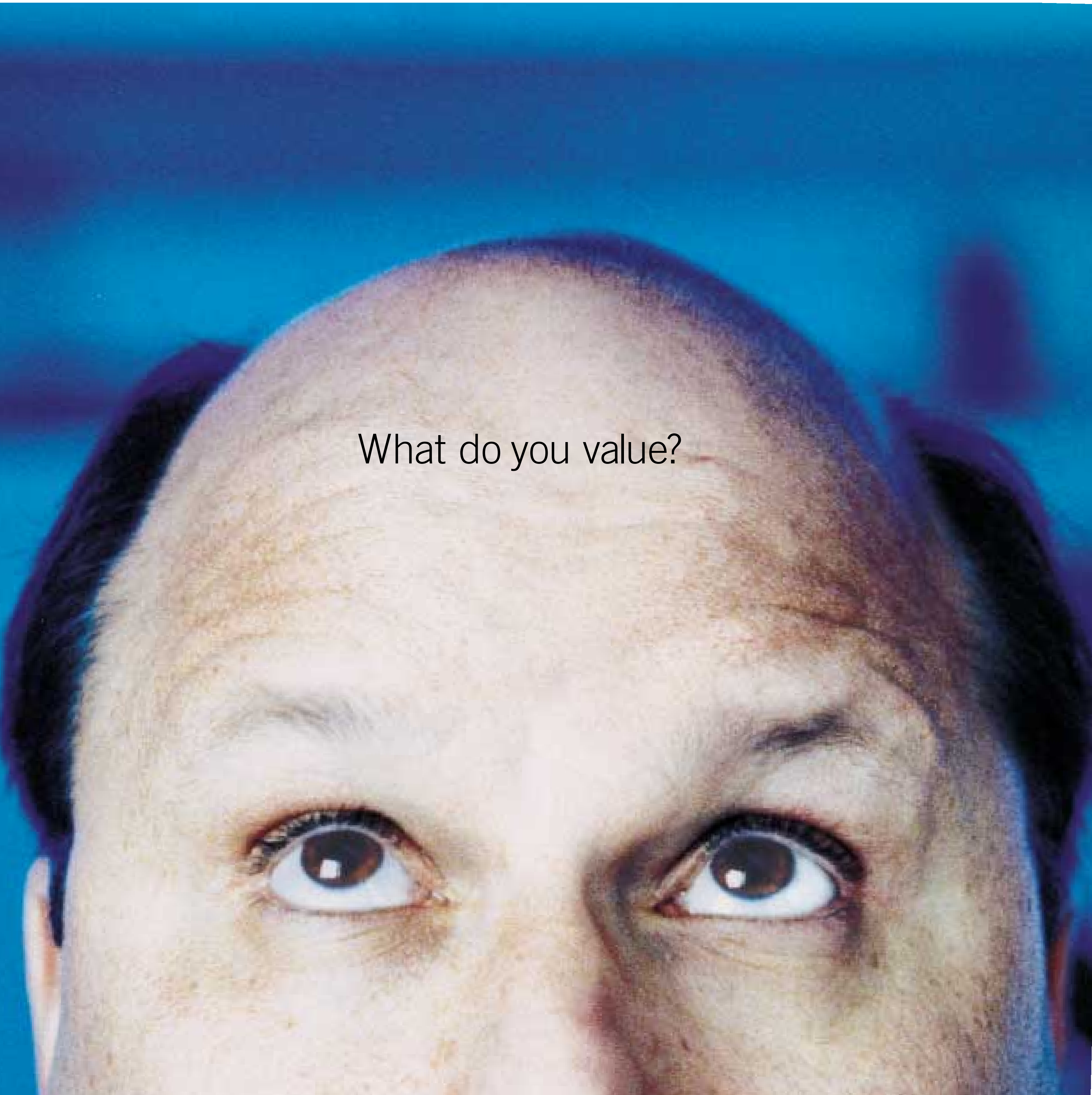
Transaction Systems Architects, Inc.
1999 Annual Report



WHAT DO YOU VALUE?

Depending on the time and place, we all value different things—be it the proper tool, correct change or a special roll of paper. In today's e-payments world, financial institutions, retailers and other industries value the solutions Transaction Systems Architects, Inc. provides to smoothly move money and information every minute of every day. At TSA, we value the customers, employees and growing e-payment markets that have helped us become a leading provider of e-payment solutions.

FINANCIAL HIGHLIGHTS[1]

In Thousands, Except Per Share Amounts . . . .

Year Ended September 30

	1999	1998	1997
Revenue	$ 354,794	$ 299,249	$ 244,149
Operating Income	70,260	51,488	40,027
Net Income[2]	44,613	31,432	25,278
Basic Net Income Per Share[2]	1.41	1.04	0.85
Diluted Net Income Per Share[2]	1.38	1.01	0.82
Earnings Before Interest, Taxes, Depreciation and Amortization	91,800	62,700	49,600
As of September 30			
Working Capital	$ 88,962	$ 86,994	$ 62,914
Total Assets	329,525	226,307	176,891
Long-term Obligations	991	2,002	2,379
Stockholders' Equity	225,169	145,877	109,346
Backlog	203,800	185,200	141,400

SUPPLEMENTAL INFORMATION[1,3]

In Thousands, Except Per Share Amounts . . . .

Year Ended September 30

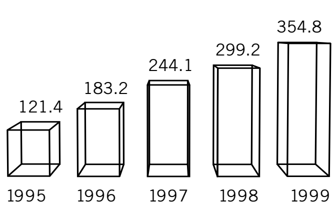
	1999	1998	1997	% Change 1998-1999
Revenues	$ 354,794	$ 299,249	$ 244,149	19
Pro Forma Operating Income	70,260	51,488	40,828	36
Pro Forma Net Income	45,012	33,776	26,079	33
Pro Forma Basic Net Income Per Share	1.42	1.11	0.87	28
Pro Forma Diluted Net Income Per Share	1.39	1.08	0.84	29

[1] Adjusted for the acquisition of Media Integration BV (MINT), accounted for as a pooling of interests.

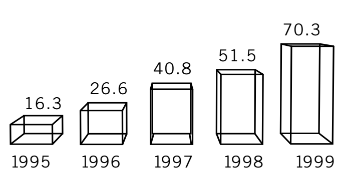
[2] Prior to their acquisitions, Regency Voice Systems, Inc. (RVS) and IntraNet were taxed primarily as a partnership and a Subchapter S corporation, respectively. In addition, prior to its acquisition, MINT's earnings were not subject to income taxes. The unaudited pro forma net income and pro forma basic and diluted net income per share reflects a pro forma tax provision for income taxes on results of operations of RVS, IntraNet and MINT for the periods prior to their acquisition.

[3] Pro forma operating income, pro forma net income and pro forma basic and diluted net income per share exclude certain one time or acquisition related expenses associated with the acquisition of ACI and ACIL in fiscal 1994. The total of these expenses were $10.8 million, $3.3 million and $851,000 in 1995, 1996 and 1997, respectively. In addition, the 1998 and 1999 pro forma results exclude $2.5 million and $653,000, respectively of transaction related expenses associated with acquisitions accounted for as poolings of interest. All pro forma results of operations were computed using an effective tax rate of 38 percent.

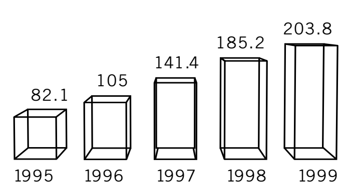
REVENUES
IN $MILLIONS



PRO FORMA
OPERATING INCOME[3]
IN $MILLIONS



ENDING BACKLOG
IN $MILLIONS



FROM THE DESK OF BILL FISHER.

Fellow Shareholders:

No, that is not me on the cover of this year's annual report. My photo is on the left. (I'm the tall guy with the full head of hair.) But the follicle-challenged gentleman gracing our cover raises an interesting point. Depending on our situation (and hairline) we all value different things at different times. As we begin our 25th year in business, we felt it appropriate to reflect on the things we value, and as we always do, to have a little fun.

At TSA we value the expertise and good fortune that's helped us become a leading provider of enterprise e-payment solutions. The explosion of Internet banking and e-commerce, the proliferation of debit cards, and the continued growth of e-payments are fueling a need for reliable, always available processing systems — just the products we've been providing for 25 years.

More than 2,300 financial institutions, retailers, processors and telcos around the world use our solutions to smoothly and efficiently move money and information. In the past year TSA customers processed an estimated 18 billion electronic transactions, a small percentage of the world's total volume when you factor in cash and checks, but a portion that is growing faster than paper-based transactions. The younger generation's acceptance of technology is helping promote this shift from paper to pulse. Rising electronic transaction volumes coupled with the need for around-the-clock services, will make our products even more attractive. Since we base our pricing on transaction volumes, rising volumes enhance our business model.

Our efforts to expand TSA's footprint in international markets during the past fiscal year increased the number of countries in which we have customers by nine, bringing our total to 79. Our solutions attracted 241 new customers, including Deutsche Bank, currently the largest bank in the world by assets. Revenue for our 1999 fiscal year increased 19 percent to a record $354.8 million, including $125.5 million in recurring revenue from monthly license fees, maintenance fees and facility management. We posted record operating income of $70.3 million and a record backlog of contracted but not yet recognized business of $203.8 million. TSA acquired SDM International, Inc. and Insession, Inc. to expand our solution and platform set. We introduced a new line of Internet-based e-commerce solutions. Not bad for a year that some thought signaled the end of the world.

As the fog of Y2K clouded the marketplace, we continued to focus on what we do best, provide solutions that help the world move money and information. Now as our customers concentrate on enhancing their systems, TSA is positioned to help. We're working with customers to make our products and services — our Transaction Smoothware™ — the industry standard. To us, Transaction Smoothware is more than a trademark. It is the way we work, our commitment to meet customers' needs on time, on budget, with no surprises. We believe Transaction Smoothware will become the dominant infrastructure behind e-payments around the world. TSA's aggressive investment in the Internet is providing the technology our customers need to support the next generation of payments.

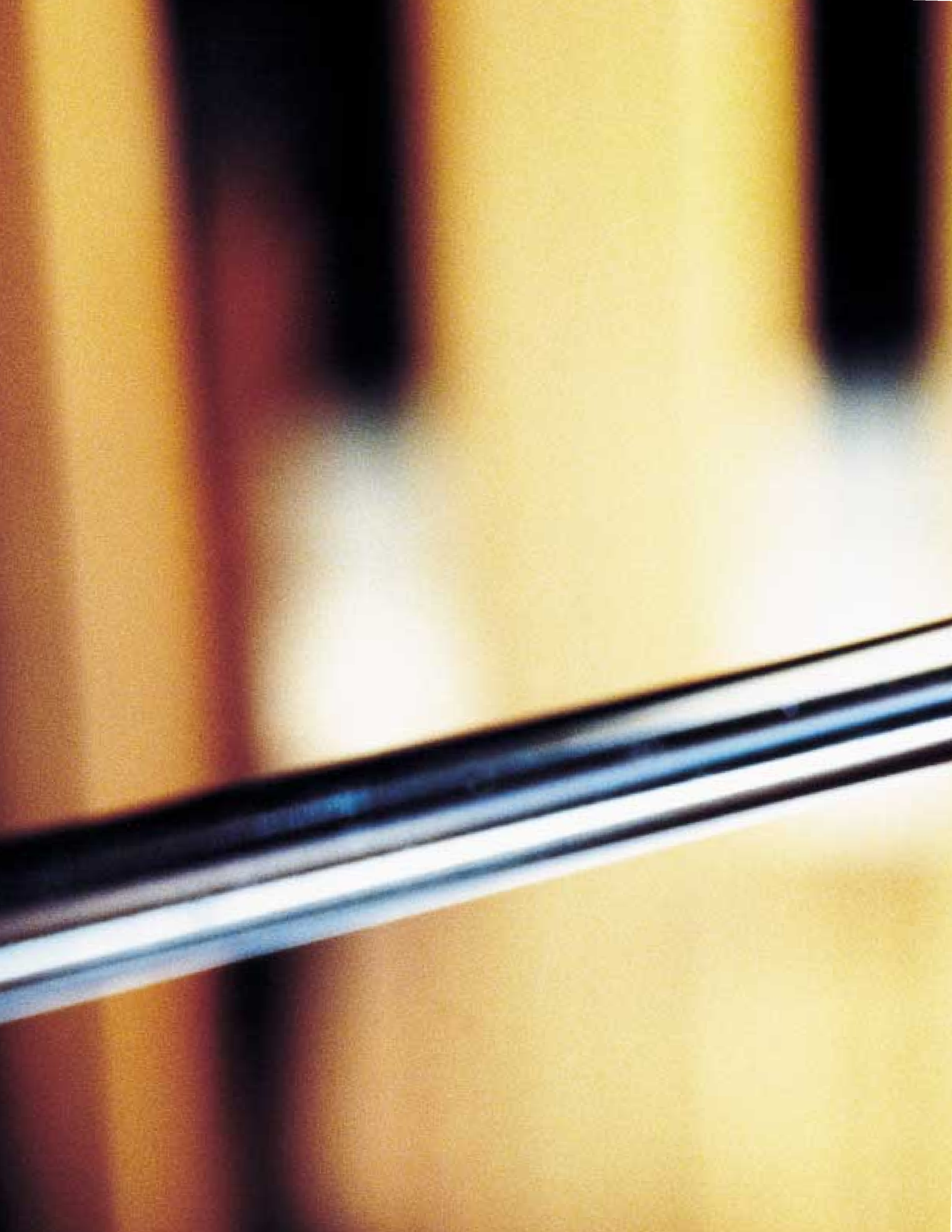
What do we value? At TSA we value the trust our customers have placed in our ability to provide proven solutions. We value our employees who help keep us in the "right place at the right time." We value the growing e-payments market that complements our volume-sensitive pricing. And ultimately, we value the continued support and interest of our shareholders.

If I might interject a personal note, I value the experiences—both good and sometimes difficult—I've had while serving as TSA's chairman, president and CEO. It has been quite a ride. I also value my family. In order to spend more time with them, this annual report marks my last as president and CEO. While I remain as chairman of the board, I've turned over day-to-day duties to Dave Russell, a man whose leadership and talent I respect. Dave most recently served as chief operating officer and executive vice president of TSA, and president of our ACI Worldwide distribution channel. He brings more than 11 years of company experience to his new position as president and CEO, and I know he will do a great job.

Thanks again for your continued support and interest in TSA.

W Fisher

William E. Fisher
Chairman
Transaction Systems Architects, Inc.




Driving the business.

WE PROVIDE THE PROPER TOOLS TO DO THE JOB.

Using the proper tool always makes the job easier. That's why TSA provides a wide range of enterprise e-payment solutions. We've organized our solutions along four lines of business — consumer banking, corporate banking, retail solutions and system solutions— to ensure they fit our customers' business needs.

CONSUMER BANKING

Solutions in the TSA Consumer Banking toolchest perform the heavy lifting needed to keep ATM and Point of Sale (POS) networks operating around the clock. This line of business includes cutting edge products that make it possible for consumers to conduct banking and pay bills via the Internet; products that process retail transactions initiated by consumers shopping on the Internet, products that manage the transfer of value and information on smart cards; and neural-network based products that help financial institutions control debit and credit card fraud, and money laundering.

CORPORATE BANKING

TSA's Corporate Banking line includes solutions that enable financial institutions to automatically deposit payroll checks and process other automated clearing house (ACH) based payments; and to process high-value (wire) payments. These products move money between businesses and financial institutions in multiple countries and in multiple currencies while meeting business, banking and governmental guidelines. We also provide web-enabling interfaces so financial institutions can offer their corporate customers browser-based access to account information.

RETAIL SOLUTIONS

Large and small retailers around the globe use TSA solutions to process debit and credit card transactions, route Electronic Benefit Transfer (EBT) transactions, authorize checks, and manage frequent shopper programs. We've extended this line of business to the web with products that enable business-to-consumer Internet commerce. Our solutions give retailers the ability to set up shop on the Internet and provide a secure shop-and-buy experience.

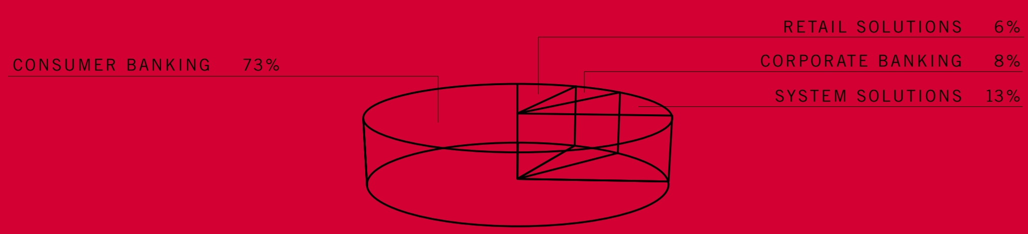
Internet retailers can use our products to process Secure Socket Layer (SSL) and Secure Electronic Transaction (SET) based transactions, issue secure server-based wallets, and control fraud.

SYSTEM SOLUTIONS

TSA System Solutions are used by a cross-section of industries from telcos to aerospace manufacturers to monitor mission-critical systems, establish communications links between high-volume systems, and handle intersystem messaging. Like our other lines of business, Internet technologies play a role in our System Solutions portfolio. Our monitoring tools are web-enabled to offer browser-based access to system information, and our intersystem messaging software offers the ability to assign Internet addresses to specific systems for browser-based access.

TSA's aggressive investment in web-based technology, coupled with extensive market research, ensures we have the tools our customers need to participate in the world's new Internet economy.

REVENUE BY LINE OF BUSINESS



88% of total revenue is derived from e-payments.

Connecting with our customers.

PLUGGING INTO CUSTOMERS' NEEDS.

TSA stays plugged into customer needs and requirements through ACI Worldwide, our exclusive international distribution and support operation. With a network of offices and development centers around the globe, ACI Worldwide provides a full complement of services including system installation, 24-hour hotline, custom software development and on-site technical services.

ACI Worldwide supplies software and services via three distribution and support channels, an Americas channel headquartered in Omaha, Nebraska; a Europe/Middle East/Africa channel headquartered in Watford, England; and an Asia/Pacific channel headquartered in Singapore. The channels maintain more than 20 offices in principal cities throughout the world. To expand our reach into regions in which we do not yet have a presence, we've forged partnerships with distributors and sales agents.

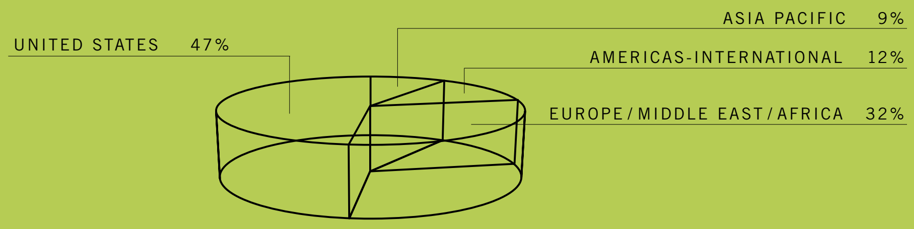
As a result of TSA's international diversity, 53 percent of our revenue comes from outside the US. Our global footprint ensures we are not dependent on a single customer. TSA customers represent all segments of the financial, retail and networking industries and include 111 of the world's top 500 banks and 22 of the top 100 retailers in the US. We also provide solutions to meet the needs of community banks and small businesses.

Large or small, our customer-centric approach of personal contact, user group seminars and market research enables us to help industries adopt business models that handle new and emerging e-payments. From traditional ATM and POS networks to web-enabled ATMs, multi-application smart cards and debit on the Internet, we provide the infrastructure our customers need to remain competitive.

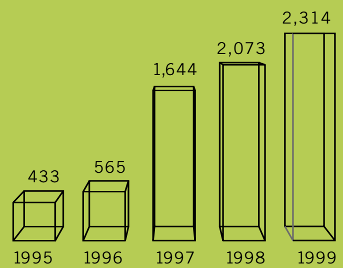
As new technologies gain acceptance and more players enter the e-payments marketplace, the need for proven solutions that move money and information smoothly, efficiently and securely will grow. No matter the e-payments player — brick-and-mortar financial institution or retailer, e-tailer, portal provider, or Internet Service Provider (ISP) — new technology business models require solutions that route e-payments for authorization and payment. TSA is positioned to meet the need.

TSA's ability to help customers adopt the necessary infrastructure to plug into the latest e-payments technology, our ever-growing portfolio of products and our worldwide reach keep us connected to the needs of customers and the marketplace.

REVENUE BY CHANNEL



NUMBER OF CUSTOMERS



Igniting a revolution.

TSA PROVIDES THE SPARK THAT HELPS CHANGE THE WAY THE WORLD WORKS.

New e-payment technologies are setting the world on fire and TSA is helping customers adopt them without getting burned. We're leveraging our knowledge of e-payments to offer customers the knowledge and expertise needed to adopt new technologies that build on and enhance existing e-payment infrastructures.

For example, today smart cards do more than exchange value. Smart cards are used to provide an extra level of security, maintain cardholder information for health care applications, or provide access to computer workstations and applications. TSA helps customers meet these varied requirements with solutions that manage the lifecycle of a smart card, from issuance to expiration. Our solutions manage multiple applications on a single smart card and can extend smart card programs to the Internet. And, our server-based solutions integrate with existing processing systems to help our customers leverage the investment they have in their existing infrastructure.

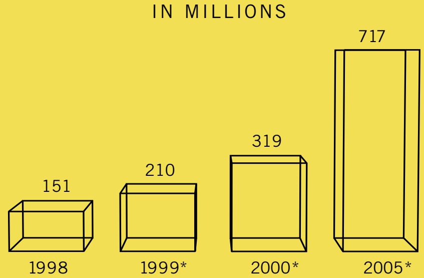
Debit card use is exploding in many parts of the world. In addition to traditional uses at ATMs, debit cards are now used for everyday purchases at grocery stores and gas stations. TSA's proven, scalable solutions are helping financial institutions and retailers leverage their current processing systems to handle growing debit card volumes while offering additional payment options. We are working with financial institutions and retailers on the next generation of debit cards, including the creation of a debit card that slips into an existing drive on a personal computer to provide a secure Internet shopping option.

Commercial opportunities presented by the Internet are fueling the spread of TSA's *e*24 Commerce Solutions around the globe. *e*24 Smoothware gives financial institutions, retailers and other Internet players the ability to provide safe and reliable web-based shopping that utilizes today's most popular security methods. And, *e*24 is open to tomorrow's security technologies. Like other TSA solutions, *e*24 leverages the existing e-payment processing infrastructure.

Banking on the web gives financial institutions the ability to expand their banking services. To help our customers enter the point-and-click banking world, TSA provides *i*24 Internet Banking software. Financial institutions around the world use *i*24 Smoothware to offer consumers the ability to pay bills, transfer money between accounts and track account activity from the convenience of a PC plugged into the Internet.

Just as we helped spark the initial e-payments revolution, TSA continues to look for new and innovative processing options that help our customers continue to change the way the world works.

WORLDWIDE INTERNET USERS
IN MILLIONS



SOURCE: *Computer Industry Almanac Inc.* and *Nua Internet Surveys* *1999, 2000 and 2005 are projections.

Making change.


ELIZABETH II
UNITED STATES OF AMERICA
1787

TO COIN A PHRASE, TSA HELPS THE WORLD MOVE MONEY.

At TSA we like to say we provide the solutions that help the world smoothly move money and information. While providing money-moving solutions, we continue to invest in new solutions and work to provide long-term value to our shareholders.

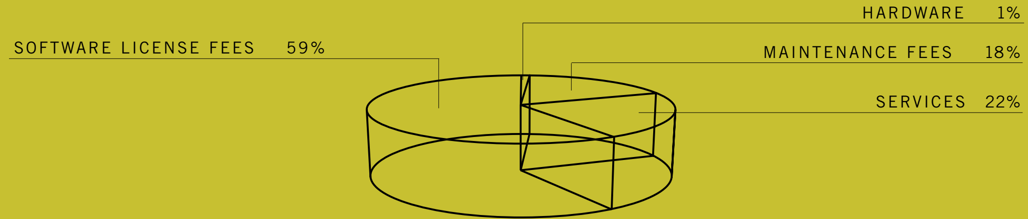
TSA revenues for the fiscal year 1999 were a record $354.8 million, an increase of 19 percent over fiscal year 1998. Cash flow from operating activities totaled $40.3 million, up from $35.8 million last year. The combined cash and cash equivalents balance, as of September 30, 1999 was $70.5 million.

We base TSA's financial model on volume-sensitive pricing, recurring license fees and maintaining a healthy backlog of contracted, but not yet recognized revenue. This allows us to grow with the e-payments marketplace.

During fiscal year 1999, we achieved $125.5 million in recurring revenue — 35 percent of our total revenue. Our recurring revenue is comprised of $54.5 million in monthly license fees, $63.9 million in maintenance fees and $7.1 million in facilities management fees. This growth helped us achieve operating income of $70.3 million, up from $51.5 million in 1998. Our operating margin in the fourth quarter of the fiscal year 1999 reached 21.3 percent as compared with 17.7 percent for the fourth quarter fiscal year 1998. Our recurring revenue pricing model helped us maintain a rolling 12-month backlog that grew 10 percent in fiscal 1999 reaching $203.8 as of September 30. The recurring revenue portion of our backlog that TSA contemplates recognition in fiscal year 2000 reached $138.7 million.

In spite of the tough market presented by Y2K, TSA achieved quality growth and consistent earnings throughout fiscal year 1999. Based on our international presence, customers' focus on new e-payment business models and the growing e-payments market, our long-term outlook is optimistic.

FINANCIAL MODEL
REVENUE BREAKDOWN



35% is Recurring Revenue consisting of monthly license fees, maintenance fees and facilities management.


Rolling out value.

TSA PROVIDES PRODUCT, PERFORMANCE AND VALUE.

At TSA, we value the opportunity to help our customers change the way the world works, shops and lives. From creation of the first e-payments network to today's e-commerce explosion, TSA provides the Transaction Smoothware financial institutions, retailers and others rely on to perform flawlessly, every minute of every day.

TSA products perform the heavy lifting required to keep payments moving—smoothly and dependably. Our portfolio extends from ATM processing products to solutions that enable secure point-and-click shopping on the Internet. We provide solutions and expertise in areas such as multi-function smart cards; secure, Internet-based debit cards; and Internet shopping and banking. Our solutions are designed to help our customers adopt new technologies with limited impact on existing systems.

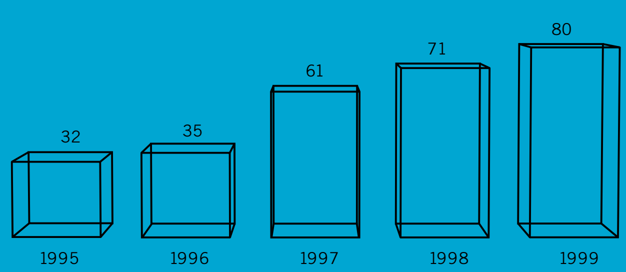
We reach our customers in 79 countries through ACI Worldwide, our global support and distribution network. With a network of offices and people around the globe, ACI Worldwide keeps us plugged into customer wants and needs. ACI Worldwide also gives us the ability to meet customers' needs on time, on budget with no surprises.

Our customer relationships don't end with meeting today's requirements. We're investing in research and development to lead the market and ensure we are prepared to help our customers adopt tomorrow's technologies.

TSA's financial model enables us to take advantage of the generational shift from paper to pulse with volume-sensitive pricing, recurring revenue, and a backlog of contracted, but not yet recognized revenue.

Together, these qualities comprise a company that is a world leader in the enterprise e-payment solutions marketplace. The things we value—customer trust, employee expertise, a growing e-payments marketplace and stockholder support—are key components of our ongoing success, and qualities that will enable TSA to deliver on-going value in the technology marketplace.

NUMBER OF SOFTWARE PRODUCTS



BOARD OF DIRECTORS

WILLIAM E. FISHER
Chairman of the Board
Transaction Systems Architects, Inc.

DAVID C. RUSSELL
Chief Executive Officer and President
Transaction Systems Architects, Inc.

PROMOD HAQUE
Vice President
Norwest Venture Capital Management, Inc.
General Partner
Norwest Venture Partners

CHARLES E. NOELL, III
Managing Partner
JMI Equity Fund, L.P.

JIM D. KEVER
President and Co-Chief Executive Officer
ENVOY Corporation

LARRY G. FENDLEY
Senior Vice President of Operations
eOnline, inc.com

EXECUTIVE OFFICERS

WILLIAM E. FISHER
Chairman of the Board

DAVID C. RUSSELL
Chief Executive Officer and President

GREGORY J. DUMAN
Chief Financial Officer and Treasurer

DAVID P. STOKES
General Counsel and Secretary

DWIGHT G. HANSON
Chief Accounting Officer

EDWARD H. MANGOLD
Senior Vice President - Americas Region

JEFFREY S. HALE
Senior Vice President - Business Development

MARK R. VIPOND
Senior Vice President - Consumer Banking

DONALD G. MCLARTY
Vice President - Asia/Pacific Region

STEPHEN J. ROYER
Vice President - System Solutions

JON D. PARR
Vice President - EMEA Region

STEPHEN M. BAILEY
Vice President - Corporate Banking

MARLIN R. HOWLEY
Vice President - Retail Solutions

ANTHONY J. PARKINSON
Vice President - Enterprise Solutions Group

GENERAL

The Company's products are organized into four lines-of-business groups as follows.

- **CONSUMER BANKING** – Products in this group represent the Company's largest product line and include its most mature and well-established applications. These applications include the Company's BASE24, TRANS24, OCM24, Integrated Voice Response (IVR), Smart Card and Internet Banking (*i24*) product lines. Financial institutions and third-party processors use these products to route and process transactions for Automated Teller Machine (ATM) networks; process transactions from retailers using traditional Point of Sale (POS) devices and the Internet; handle Internet and phone banking transactions; control fraud and money laundering and issue and manage multi-functional applications on smart cards. Products in the Consumer Banking group represent approximately 73% of the Company's fiscal 1999 revenue.

- **CORPORATE BANKING** – The Company's Corporate Banking products include its CO-ach, Money Transfer System (MTS) and MoneyNet products. The CO-ach product is used by financial institutions to automatically deposit paychecks and process other automated clearing house (ACH) transactions. Financial institutions use the MTS and MoneyNet products to automate the process by which institutions transfer high-value payments. Products in the Corporate Banking group represent approximately 8% of the Company's fiscal 1999 revenue.

- **RETAIL SOLUTIONS** – Retail Solutions products include BASE24-POS and WINPAY24 which are used by some of the world's largest retailers to route transactions from their ATM and POS networks; process Electronic Benefit Transfer (EBT) transactions, authorize checks, establish frequent shopper programs and control fraud. In addition, Retail Solutions products include *e24* which allows retailers to process e-commerce payment transactions. Products in the Retail Solutions group represent approximately 6% of the Company's fiscal 1999 revenue.

- **SYSTEM SOLUTIONS** – Products in this group are used by a cross-section of customers in many industries to monitor mission critical systems, establish communication links between high-volume systems and handle intersystem messaging primarily through the use of the Company's ICE, NET24, Enguard and Extractor/Replicator products. Products in the System Solutions group represent approximately 13% of the Company's fiscal 1999 revenue.

Products developed by the four lines-of-business groups are marketed and supported through the Company's wholly-owned subsidiary, ACI Worldwide Inc (ACI). ACI sells and supports the products and services through three distribution networks: the Americas, Europe/Middle East/Africa (EMEA) and Asia/Pacific. Each distribution network primarily uses its own sales force and supplements this with reseller and/or distributor networks.

FIVE-YEAR SELECTED FINANCIAL DATA

In Thousands, Except Share Data	Year ended September 30				
	1999	1998	1997	1996	1995
Income Statement Data					
Revenues	$ 354,794	$ 299,249	$ 244,149	$ 183,236	$ 121,403
Operating income	70,260	51,488	40,027	23,268	9,853
Net income [1]	44,613	31,432	25,278	14,286	4,060
Basic net income per share [1]	1.41	1.04	0.85	0.50	0.16
Diluted net income per share [1]	1.38	1.01	0.82	0.48	0.16
Balance Sheet Data					
Working capital	$ 88,962	$ 86,994	$ 62,914	$ 43,268	$ 38,153
Total assets	329,525	226,307	176,891	134,988	103,586
Long-term obligations	991	2,002	2,379	1,687	357
Stockholders' equity	225,169	145,877	109,346	80,298	60,402

[1] Prior to their acquisitions, RVS and IntraNet were taxed primarily as a partnership and a Subchapter S corporation, respectively. In addition, prior to its acquisition, MINT's earnings were not subject to income taxes. The unaudited pro forma net income reflects a pro forma tax provision for income taxes on the results of operations of RVS, IntraNet and MINT for the periods prior to their acquisition.

OVERVIEW

The Company develops, markets, installs and supports a broad line of software products and services primarily focused on facilitating electronic payments and electronic commerce. The Company's products are organized into four lines of business groups – Consumer Banking, Corporate Banking, Retail Solutions and System Solutions. Products developed by the four lines-of-business groups are marketed and supported through the Company's wholly-owned subsidiary, ACI Worldwide Inc (ACI). ACI sells and supports the products and services through three distribution networks: the Americas, Europe/Middle East/Africa (EMEA) and Asia/Pacific. Each distribution network primarily uses its own sales force and supplements this with reseller and/or distributor networks. During fiscal 1999, 1998 and 1997, approximately 53%, 55% and 54%, respectively, of total revenues resulted from international operations. The Company derived approximately 66%, 63% and 64%, respectively, of its revenues for those same periods from licensing its BASE24 family of software products and providing related services and maintenance. Although the Company believes that the majority of its revenues will continue to come from its existing BASE24 products over the next several years, the Company has acquired and developed and is currently developing other software products and related services. These products are in the areas of network connectivity, middleware, internet and remote banking, e-commerce, wire transfer, ACH and IVR.

ACQUISITIONS

The Company has completed several acquisitions during fiscal 1999, 1998 and 1997. The Company's acquisition strategy is focused primarily on two areas: (i) additional products to complement and enhance the Company's strategy of being the leading provider of electronic payments software for banks, retailers and other enterprises needing high-volume, reliable processing engines and (ii) geographic expansion into markets which have proven or have a high level of opportunity to embrace electronic payments. Significant acquisitions in fiscal 1999, 1998 and 1997 include the following:

Acquiree	Date Acquired
Open Systems Solutions, Inc.	October 1996
Regency Voice Systems, Inc. (RVS)	May 1997
IntraNet, Inc. (IntraNet)	August 1998
Professional Resources, Inc. (PRI)	August 1998
Smart Card Integrators Ltd (SCIL)	August 1998
Media Integration BV (MINT)	November 1998
U S Processing, Inc.(USPI)	December 1998
Insession, Inc. (Insession)	March 1999
SDM International, Inc. (SDM)	July 1999

All of the acquisitions were acquired using the pooling of interests method of accounting except for USPI, Insession, and SDM which were accounted for under the purchase method of accounting. USPI was subsequently sold in September 1999. The Company's financial statements have been restated for all periods presented to include the results of the material entities acquired using the pooling of interests method of accounting. The acquisitions of USPI and SDM did not contribute significant revenues during fiscal 1999. The Company was previously the exclusive distributor of Insession's primary product (ICE) and, as a result, that acquisition did not contribute significant additional revenues in fiscal 1999.

PRODUCT PRICING AND REVENUE RECOGNITION

The Company's primary software license fees pricing method is transaction sensitive, whereby products are priced based upon the number of transactions processed by the customer ("transaction-based pricing"). Under this method, customers license the products by paying an Initial License Fee (ILF), where the customer pays a significant portion of the total software license fees at the beginning of the software license term, and a Monthly License Fee (MLF), where the customer pays a portion of the software license fees over the software license term. The payment of the ILF and MLF allows the customer to process a contractually predetermined maximum volume of transactions per month for a specified period of time. Once the transaction volume exceeds this maximum volume level, the customer is required to pay an additional license fee which is in the form of a Capacity License Fee (CLF), collected at the beginning of the period the customer contracts for an incremental volume level, and a Capacity Monthly License Fee (CMLF), collected over the software license term. There is a separate license fee for each incremental volume level. In addition to transaction-based pricing, the Company offers a hardware specific pricing method whereby the product is priced on a per copy basis and tiered to recognize different performance levels of the processing hardware ("designated equipment group pricing"). Under designated equipment group pricing, the customers pay a license fee (in the form of an ILF and MLF) for each copy of the software the customers have licensed for a specified period of time. Under both the transaction-based pricing method and the designated equipment group pricing method, the Company offers a paid up front (PUF) payment option, whereby the present value of the MLF or CMLF is due at the beginning of the software license term. The standard software license term under either pricing method is typically 60 months, but may extend over a shorter or longer period. Other elements of the software licensing arrangement typically include postcontract customer support (maintenance) and, occasionally, services.

Beginning in fiscal 1999, the Company adopted American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition" (SOP 97-2). SOP 97-2 provides guidance on applying generally accepted accounting principles for software revenue recognition transactions. The primary software revenue recognition criteria outlined in SOP 97-2 include: evidence of an arrangement; delivery; fixed or determinable fees; and collectibility.

SOP 97-2 specifies that extended payment terms in a software licensing arrangement may indicate that the software license fees are not deemed to be fixed or determinable. In addition, if payment of a significant portion of the software license fees is not due until more than twelve months after delivery, the software license fees should be *presumed* not to be fixed or determinable, and thus should be recognized as the payments become due. However, SOP 97-2 specifies that if the Company has a standard business practice of using extended payment terms in software licensing arrangements and has a history of successfully collecting the software license fees under the original terms of the software licensing arrangement without making concessions, the Company can overcome the presumption that the software license fees are not fixed or determinable. If the presumption is overcome, the Company should recognize the software license fees when all other SOP 97-2 revenue recognition criteria are met.

The Company has concluded that for certain software arrangements entered into after October 1, 1998 with extended guaranteed payment terms, the "fixed or determinable" presumption has been overcome and software license fees should be recognized upon meeting the SOP 97-2 revenue recognition criteria ("guaranteed software license fees"). The present value of the guaranteed software license fees, net of third party royalties, recognized in fiscal 1999 totaled approximately $60.5 million. The discount rates used to determine the present value of the guaranteed software license fees, representing the Company's incremental borrowing rates, ranged from 9.5% to 10.25%. The portion of the guaranteed software license fees that has been recognized by the Company, but not yet billed, is reflected in accrued receivables in the accompanying consolidated balance sheets.

Failing to overcome the "fixed or determinable" presumption would have resulted in the Company recognizing the ILF and CLF components of the software license fees related to these certain software arrangements when the software was delivered (or in the reporting period that the incremental volume level was effective), and the MLF and CMLF components of the software license fees would have been recognized ratably over the software license term as they were billed. Software license fees related to those software arrangements that would have been recognized in fiscal 1999 had the Company not been able to overcome the presumption that the software license fees were not fixed or determinable fees would have been approximately $5.1 million.

Software license fees for fiscal 1999, 1998 and 1997 consisted of the following (in thousands):

	1999	1998	1997
Initial license fees (ILF, CLF, PUF)	$ 95,002	$ 123,175	$ 98,738
Monthly license fees (MLF, CMLF)	54,500	43,700	32,400
Guaranteed software license fees	60,500	–	–
	$ 210,002	$ 166,875	$ 131,138

The Company prefers to collect software license fees using the MLF/CMLF payment option rather than the PUF payment option, as the MLF/CMLF payment option generally provides more favorable economic results to the Company. Software license arrangements with the MLF/CMLF payment option typically include guaranteed monthly payments, which enhances the long-term relationship with the customer. As a result, in fiscal 1999 the Company emphasized MLF/CMLF payment options rather than PUF payment options.

RESULTS OF OPERATIONS

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

Year Ended September 30,	1999		1998		1997	
(in thousands)	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenues:						
Software license fees	$ 210,002	59.2%	$ 166,875	55.8%	$ 131,138	53.7%
Maintenance fees	63,933	18.0	57,077	19.1	48,714	20.0
Services	76,857	21.7	70,688	23.6	58,234	23.9
Hardware, net	4,002	1.1	4,609	1.5	6,063	2.5
Total revenues	354,794	100.0	299,249	100.0	244,149	100.0
Expenses:						
Cost of software license fees	44,079	12.4	36,294	12.1	29,538	12.1
Cost of maintenance and services	72,096	20.3	69,886	23.4	57,821	23.7
Research and development	34,612	9.8	26,260	8.8	20,070	8.2
Selling and marketing	70,121	19.8	62,013	20.7	50,168	20.5
General and administrative:						
General and administrative costs	58,725	16.6	51,873	17.3	45,517	18.6
Amortization of goodwill and purchased intangibles	4,901	1.4	1,435	0.5	1,008	0.4
Total expenses	284,534	80.2	247,761	82.8	204,122	83.6
Operating income	70,260	19.8	51,488	17.2	40,027	16.4
Other income (expense):						
Interest income	2,947	0.8	3,204	1.1	2,291	0.9
Interest expense	(401)	(0.1)	(242)	(0.1)	(178)	(0.1)
Transaction related expenses	(653)	(0.2)	(2,512)	(0.8)	–	0.0
Other	(283)	(0.1)	(203)	(0.1)	(652)	(0.3)
Total other	1,610	0.5	247	0.1	1,461	0.6
Income before income taxes	71,870	20.3	51,735	17.3	41,488	17.0
Provision for income taxes	(27,170)	(7.7)	(19,476)	(6.5)	(14,325)	(5.9)
Net income	$ 44,700	12.6%	$ 32,259	10.8%	$ 27,163	11.1%
Unaudited pro forma net income [1]	$ 44,613	12.6%	$ 31,432	10.5%	$ 25,278	10.4%

[1] Prior to their acquisitions, RVS and IntraNet were taxed primarily as a partnership and a Subchapter S corporation, respectively. In addition, prior to its acquisition, MINT's earnings were not subject to income taxes. The unaudited pro forma net income reflects a pro forma tax provision for income taxes on the results of operations of RVS, IntraNet and MINT for the periods prior to their acquisition.

REVENUES

Total revenues for fiscal 1999 increased 18.6% or $55.5 million over fiscal 1998. Of this increase, $43.1 million of the growth resulted from a 25.8% increase in software license fees revenue, $6.2 million from an 8.7% increase in services revenue and $6.9 million from a 12.0% increase in maintenance fee revenue.

Total revenues for fiscal 1998 increased 22.6% or $55.1 million over fiscal 1997. Of this increase, $35.7 million of the growth resulted from a 27.3% increase in software license fees revenue, $12.5 million from a 21.4% increase in services revenue and $8.4 million from a 17.2% increase in maintenance fee revenue.

The growth in software license fees revenue in both fiscal 1999 and 1998 is primarily the result of increased demand, from both existing and new customers, for the Company's BASE24 ATM and POS products and System Solutions products and services accompanied by the continued growth of the installed base of customers paying monthly license fee (MLF) revenue. Contributing to the strong demand for the Company's products is the continued world-wide growth of electronic payment transaction volume and the growing complexity of electronic payment systems. MLF revenue was $54.5 million, $43.7 million and $32.4 million in fiscal 1999, 1998 and 1997, respectively.

The growth in services revenue in both fiscal 1999 and 1998 is the result of increased demand for technical and project management services which is a direct result of the increased installed base of the Company's BASE24 products.

The increase in maintenance fee revenue in both fiscal 1999 and 1998 is a result of the continued growth of the installed base of the Company's software products.

EXPENSES

Total operating expenses for fiscal 1999 increased 14.8% or $36.8 million over fiscal 1998. Total operating expenses for fiscal 1998 increased 21.4% or $43.6 million over fiscal 1997. The primary reason for the overall increase in operating expenses during fiscal 1999 and 1998 is the increase in staff required to support the increased demand for the Company's products and services. The slowing of expense growth in fiscal 1999 is primarily due to the Company implementing controls over headcount growth. Prior to the implementation of the headcount controls, the Company was experiencing significant headcount growth as it moved to the line-of-business organization structure and added acquired companies. Total staff (including both employees and independent contractors) was 2,194, 2,054 and 1,684 at September 30, 1999, 1998 and 1997, respectively.

The Company's operating margin was 19.8%, 17.2% and 16.4% in fiscal 1999, 1998 and 1997, respectively. These improvements are primarily due to increased demand for the Company's products and the impact of the growth in the Company's MLF revenues.

The Company's gross margin (total revenues minus cost of software and cost of maintenance and services) was 67.3%, 64.5% and 64.2% in fiscal 1999, 1998 and 1997, respectively. The increase in gross margin is primarily due to the impact of additional MLF revenue.

Research and development (R&D) costs as a percentage of total revenues were 9.8%, 8.8% and 8.2% in fiscal 1999, 1998 and 1997, respectively. The majority of R&D costs have been charged to expense as incurred with the capitalization of software costs amounting to approximately $3.6 million in fiscal 1999 and $1.0 million in fiscal 1998 and 1997.

Selling and marketing costs as a percentage of total revenues were 19.8%, 20.7% and 20.5% in fiscal 1999, 1998 and 1997, respectively. The slight decrease in fiscal 1999 as compared to fiscal 1998 and 1997 is due to the impact of additional MLF revenue and increased leverage from a larger revenue base in relation to the level of selling and marketing costs being incurred.

General and administrative (G & A) costs as a percentage of total revenues were 16.6%, 17.3% and 18.5% in fiscal 1999, 1998 and 1997. The decreases are due primarily to increased leverage from the larger revenue base in relation to the level of G & A expenses being incurred.

EBITDA
The Company's earnings before interest, income taxes, depreciation and amortization (EBITDA) was $91.8 million, $62.7 million and $49.6 million for fiscal 1999, 1998 and 1997, respectively. These increases are attributable to the continued growth in both recurring and non-recurring revenues more than offsetting the growth in operating expenses. EBITDA is not intended to represent cash flows for the periods in accordance with generally accepted accounting principles.

OTHER INCOME AND EXPENSE
Other income and expense consists primarily of interest income derived from short-term investments and interest expense on indebtedness. Interest income was higher in fiscal 1998 than in fiscal 1999. This is due primarily to interest earned in fiscal 1998 and early fiscal 1999 on promissory notes and line-of-credit advances provided to Insession and USPI prior to the Company's acquisition of these companies.

TRANSACTION RELATED EXPENSES
Transaction related expenses include legal, accounting, investment banking fees and other non-recurring expenses associated with the acquisitions accounted for as poolings of interest. In fiscal 1999, the Company incurred $653,000 of these expenses to complete the acquisition of MINT and in fiscal 1998, the Company incurred $2.5 million to complete the acquisition of IntraNet, SCIL and PRI.

INCOME TAXES
The Company had a pro forma effective tax rate of 38% for fiscal 1999 and 39% for fiscal 1998. As of September 30, 1999, the Company has deferred tax assets of approximately $18.7 million and deferred tax liabilities of $6.2 million. Each year, the Company evaluates its historical operating results as well as its projections to determine the realizability of the deferred tax assets. This analysis indicated that $7.5 million of the deferred tax assets were more likely than not to be realized. Accordingly, the Company has recorded a valuation allowance of $11.2 million as of September 30, 1999.

The Company intends to analyze the realizability of the net deferred tax assets at each future reporting period. Such analysis may indicate that the realization of various deferred tax benefits is more likely than not and, therefore, the valuation reserve may be reduced.

BACKLOG
As of September 30, 1999 and 1998, the Company had non-recurring revenue backlog of $30.9 million and $30.2 million in software license fees and $34.2 million and $35.6 million in services, respectively. The Company includes in its non-recurring revenue backlog all fees specified in contracts which have been executed by the Company to the extent that the Company contemplates recognition of the related revenue within one year. There can be no assurance that the contracts included in non-recurring revenue backlog will actually generate the specified revenues or that the actual revenues will be generated within the one year period.

As of September 30, 1999 and 1998, the Company had recurring revenue backlog of $138.7 million and $119.4 million, respectively. The Company defines recurring revenue backlog to be all monthly license fees, maintenance fees and facilities management fees specified in contracts which have been executed by the Company and its customers to the extent that the Company contemplates recognition of the related revenue within one year. There can be no assurance that the contracts included in recurring revenue backlog will actually generate the specified revenues or that the actual revenues will be generated within the one year period.

YEAR 2000

Year 2000 problems may arise in computer equipment and software, as well as embedded electronic systems, because of the way these systems are programmed to interpret certain dates that will occur around the change in century. In the computer industry this is primarily the result of computer programs being designed and developed using or reserving only two digits in date fields (rather than four digits) to identify the year, without considering the ability of the program to properly distinguish the upcoming century change in the Year 2000. In addition, the Year 2000 is a special-case leap year and some programs may drop February 29th from their internal calendars. Certain other dates may present problems because of the way the digits are interpreted. Because the Company's business is based on the licensing of applications software, the Company's business would be adversely impacted if its products or its internal systems experience problems associated with the century change. This issue also potentially affects the software programs and systems used by the Company in its operations.

PROJECT DEFINITION

In 1996 the Company initiated a company wide program to analyze three specific categories of systems: (1) software developed by the Company which is licensed to customers; (2) information technology or "IT" systems utilized by the Company consisting of applications developed in-house and purchased from third party suppliers; and (3) non-IT systems and embedded technology which are integral components of the infrastructure of the Company.

The Company adopted a methodology for reviewing its licensed software consisting of four categories. The categories are (1) preparation, (2) analysis and remediation, (3) testing, and (4) delivery. The Company developed tools during the preparation phase of the project which were utilized during the analysis and testing phases. The tools were subsequently made available to the Company's customers at no charge. The Company believes that its remediation efforts with respect to its software products will prove to be successful. The Company's belief is based on testing by the Company of its software products by using testing tools simulating dates and testing by many of its customers who have in turn completed their own Year 2000 testing. Year 2000 compliant versions of its software products ("Compliant Software") have been made available by the Company to customers in a timely manner and its communication efforts have been proactive and ongoing. The Company continues to actively monitor the status and progress of customers and distributors and assess the risk associated in those cases where the customer has not taken delivery of the Compliant Software or may have not made satisfactory progress in their own Year 2000 testing.

With respect to IT and non-IT systems, the Company is utilizing a methodology similar to that adopted for its software products. Specifically, the Company is utilizing the following steps: (1) preparation, in which the Company conducts systematic inventory, analysis, and prioritization of the systems in accordance with mission critical impact (2) analysis, replacement and remediation (3) testing and (4) implementation.

Recognizing the importance of communications regarding and organization of Year 2000 tasks and responsibilities, the Company has embraced a management approach utilizing central coordination with distributed administration over geographic and business units. This approach mirrors the Company's organization and ensures that Year 2000 Communications Managers are deployed and managing tasks in close proximity to actual efforts. Those efforts are then reported centrally to upper management. The approach also ensures that customers are kept informed of product and Company activities relating to the Year 2000 and that the Company is able to measure progress and plan support for customers' Year 2000 projects.

CURRENT STATUS

Following analysis, remediation and testing efforts, the Company began shipping Year 2000 compliant versions of its major licensed software applications in March of 1997. As efforts were completed on other applications, they too were shipped to customers so that they could be upgraded as part of the customers' own Year 2000 projects. As of November 1999, all of the Company's licensed software applications are compliant and available to customers. The Company continues to conduct analysis of newly acquired software products with appropriate measurement and documentation in accordance with the Year 2000 methodology in place.

With respect to the IT and non-IT systems, remediation and replacement has been substantially completed in the most critical areas. The internal accounting systems utilized by the Company and its subsidiaries have been replaced where necessary. As new IT and non-IT purchases are made, each is scrutinized and inventoried for Year 2000 compliance.

The majority of the embedded systems on which the Company relies in its day to day operations around the world are owned and managed by the lessors of the buildings in which the Company's offices are located, or by agents of such lessors. The Company has sent letters to its lessors and, as applicable, their agents requesting certifications of the Year 2000 compliance of the embedded systems. The Company has received responses from more than 90% of its lessors indicating that the systems in the buildings either already are, or are expected to be before the end of 1999, Year 2000 compliant. Those systems not owned by and managed by lessors have undergone a similar inventory and certification gathering. The Company will prioritize systems and develop necessary test plans based on the further responses it continues to receive, or not to receive, to its letters.

The Company has developed contingency plans for support of its customers prior to, during, and following the "Year 2000 weekend". Such plans incorporate, but are not limited to, distribution of support personnel in locations around the world, backup plans for telecommunications, decision and notification hierarchy, and other infrastructure support. Contingency plans were completed in September of 1999.

COSTS

The Company expects to incur project costs of approximately $10 million over the life of the Year 2000 project. These costs consist of: (i) internal staff costs related to licensed product remediation and testing; (ii) internal staff costs related to IT and non-IT compliance; (iii) hardware and software cost for replacement of IT systems; and (iv) costs related to non-IT compliance involving embedded systems and consulting services. Costs incurred from the beginning of the project in 1996 through September 1999 have totaled approximately $9.4 million. The Company expects to incur an additional $600,000 over the remaining life of the Year 2000 project. All costs related to the Year 2000 project are being expensed as incurred. The estimated remaining costs are based on currently known circumstances and various assumptions regarding future events. There can be no assurance that this estimate will be achieved and actual results could differ materially from those anticipated.

RISKS

The Company believes that the most likely Year 2000 risks relate to third parties with which it has material relationships. Those parties include computer hardware system providers on which the Company and its customers rely as well as service providers such as those providing telecommunications and electricity. Failure or disruption of such services or systems could adversely affect operations and the Company's ability to support its customers. The second most likely Year 2000 risk relates to the Company's products that are used in conjunction with software products developed by other vendors or by customers who have developed their own applications for use with the Company's products, which may not be Year 2000 compliant. Since the majority of the Company's customers utilize the Company's software products for authorization, routing, or processing of financial transactions, the failure of such customers' systems, which may be particularly susceptible to Year 2000 compliance issues, could impact the transaction volume processed by the customers thereby reducing transaction fees paid by customers with usage based fee contracts. Failures of such systems could also increase the efforts required by the Company to assist customers with resolving problems unrelated to the Company's licensed products. The third most likely Year 2000 risk relates to certain foreign countries in which the Company operates and the Company's customers in such countries that are not acting to sufficiently remediate Year 2000 issues. Some customers outside of the United States have chosen to concentrate on issues other than the Year 2000. Without concentrating on the Year 2000 upgrade and testing efforts, such customers will not be prepared and may require additional support to assist them. Commercial risks are associated with operating in countries that are not prepared for the Year 2000.

In each case cited previously, the Company has developed contingency plans to address each identified risk. In addition, the Company continues to use its methodology of centralized and distributed management to keep in contact and monitor progress with customer projects and to communicate at an upper management level to those customers categorized as "at risk" due to their lack of progress. The contingency plan acknowledges the risk associated with suppliers of material services, hardware vendors closely related to the operation of the Company's licensed products, the Company's own licensed products and the ability of the Company to support its customers. In addition to distributed support methods, the Company's contingency plans address alternative services, such as telecommunications. The (i) inability to timely implement contingency plans, if deemed necessary and (ii) the cost to implement such plans, may have a material adverse effect on the Company's results of operations.

Except for statements of existing or historical facts, the foregoing discussion consists of forward-looking statements and assumptions relating to forward-looking statements, including without limitation the statements relating to future costs, potential problems relating to Year 2000, the Company's state of readiness, third party representations, and the Company's plans and objectives for addressing Year 2000 problems. Certain factors could cause actual results to differ materially from the Company's expectations, including without limitation (i) the failure of existing or future customers to achieve Year 2000 compliance, (ii) the failure of computer hardware system providers on which the Company and its customers rely or other vendors or service providers of the Company or its customers to timely achieve Year 2000 compliance, (iii) the Company's products and systems not containing all necessary date code changes, (iv) the failure of the Company's analysis and testing to detect operational problems in IT and non-IT systems utilized by the Company or in the Company's products or services, whether such failure results from the technical inadequacy of the Company's validation and testing efforts, the technological unfeasibility of testing certain non-IT systems, and the unavailability of customers or other third parties to participate in testing, (v) potential litigation arising out of Year 2000 issues, with respect to providers of software and related technical and consulting services such as the Company generally, and particularly in light of the numerous interfaces between the Company's products and products and systems of third parties which are required to successfully utilize the Company's products which could involve the Company in expensive, multiple party litigation even though the Company may have no responsibility for the alleged problem, and (vi) the failure to successfully implement the contingency plan or any inadequacy of the contingency plan to the extent Year 2000 compliance is not achieved.

During the first quarter of fiscal 2000, the Company's large bank and merchant customers have, in effect, locked down their systems prior to the Year 2000. This Year 2000 lock-down has had a negative impact on the Company's revenue and net income for the first quarter of fiscal 2000 due to the less than expected demand by the Company's customers to upgrade and enhance their current systems.

Although it is uncertain whether the Year 2000 lock-down will have a negative impact on the Company's revenue and net income beyond the first quarter of fiscal 2000, the Company believes demand for system upgrades and enhancements could be slow to return to normal levels if one or more segments of the global marketplace experience Year 2000-related failures. It is clear that as a result of the negative impact on the first quarter of fiscal 2000, the Year 2000 lock-down will have a negative impact on the Company's revenue and net income for fiscal 2000.

The statements in this report regarding future results are preliminary and "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, this report contains other forward-looking statements including statements regarding the Company's expectations, plans and beliefs. The forwarding-looking statements in this report are subject to a variety of risks and uncertainties. Actual results could differ materially. Factors that could cause actual results to differ include but are not limited to those described above and the following:

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

- That the Company's business is concentrated in the banking industry, making it susceptible to a downturn in that industry.

- Fluctuations in quarterly operating results may result in volatility in TSA's stock price. No assurance can be given that operating results will not vary.

- TSA's stock price may be volatile, in part due to external factors such as announcements by 3rd parties or competitors, inherent volatility in the high-technology sector and changing market conditions in the industry.

For a detailed discussion of these and other risk factors, interested parties should review the Company's filings with the Securities and Exchange Commission, including Exhibit 99.01 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1999.

SELECTED QUARTERLY INFORMATION

The following table sets forth certain unaudited financial data for each of the quarters within fiscal 1999, 1998 and 1997. This information has been derived from the Company's Consolidated Financial Statements and in management's opinion, reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information for the quarters presented. The operating results for any quarter are not necessarily indicative of results for any future period.

Quarter Ended (in thousands)	Sep. 30, 1999	June 30, 1999	March 31, 1999	Dec. 31, 1998	Sep. 30, 1998	June 30, 1998	March 31, 1998	Dec. 31, 1997	Sep. 30, 1997	June 30, 1997	March 31, 1997	Dec. 31, 1996
Revenues:												
Software license fees	$60,114	$53,259	$50,552	$46,077	$45,305	$42,923	$40,082	$38,565	$34,796	$34,340	$33,152	$28,850
Maintenance fees	16,328	16,042	15,996	15,567	15,078	14,664	14,162	13,173	12,628	12,470	11,861	11,755
Services	15,395	18,858	19,309	23,295	20,154	18,188	16,405	15,941	15,455	15,211	13,535	14,033
Hardware, net	810	967	1,094	1,131	883	1,232	1,105	1,389	1,175	1,083	3,213	592
Total revenues	92,647	89,126	86,951	86,070	81,420	77,007	71,754	69,068	64,054	63,104	61,761	55,230
Expenses:												
Cost of software license fees	11,926	10,381	9,950	11,822	9,776	9,220	8,535	8,763	7,592	7,428	7,284	7,234
Cost of maintenance and services	16,025	17,740	18,038	20,293	19,304	18,126	16,722	15,734	14,941	14,832	13,929	14,119
Research and development	9,165	8,711	8,538	8,198	7,050	6,797	6,304	6,109	5,269	5,155	5,102	4,544
Selling and marketing	19,300	17,495	17,348	15,978	16,917	15,682	15,010	14,404	13,713	13,062	12,441	10,952
General and administrative:												
General and administrative costs	14,742	14,639	14,976	14,368	14,045	13,717	12,279	11,832	11,035	11,422	12,930	10,130
Amortization of goodwill and purchased intangibles	1,780	1,572	1,104	445	359	347	414	315	344	210	237	217
Total expenses	72,938	70,538	69,954	71,104	67,451	63,889	59,264	57,157	52,894	52,109	51,923	47,196
Operating income	19,709	18,588	16,997	14,966	13,969	13,118	12,490	11,911	11,160	10,995	9,838	8,034
Other income (expense):												
Interest income	817	706	721	703	894	863	800	647	642	621	547	481
Interest expense	(165)	(77)	(48)	(111)	(98)	(46)	(78)	(20)	(42)	(55)	(24)	(57)
Transaction related expenses	–	–	–	(653)	(2,512)	–	–	–	–	–	–	–
Other income (expense)	(320)	(131)	(29)	197	63	(226)	40	(80)	(76)	(40)	(223)	(313)
Total other	332	498	644	136	(1,653)	591	762	547	524	526	300	111
Income before income taxes	20,041	19,086	17,641	15,102	12,316	13,709	13,252	12,458	11,684	11,521	10,138	8,145
Provision for income taxes	(7,531)	(7,237)	(6,757)	(5,645)	(5,289)	(5,040)	(4,700)	(4,447)	(3,786)	(3,793)	(3,667)	(3,079)
Net income	$12,510	$11,849	$10,884	$9,457	$7,027	$8,669	$8,552	$8,011	$7,898	$7,728	$6,471	$5,066
Unaudited pro forma net income[1]	$12,510	$11,849	$10,884	$9,370	$6,849	$8,575	$8,290	$7,718	$7,537	$7,206	$5,990	$4,545
Pro forma basic earnings per share	$0.39	$0.37	$0.35	$0.30	$0.22	$0.28	$0.28	$0.26	$0.25	$0.24	$0.20	$0.16
Pro forma diluted earnings per share	$0.38	$0.36	$0.34	$0.30	$0.22	$0.27	$0.27	$0.25	$0.24	$0.23	$0.20	$0.15

1 Prior to their acquisitions, RVS and IntraNet were taxed primarily as a partnership and a Subchapter S corporation, respectively. In addition, prior to its acquisition, MINT's earnings were not subject to income taxes. The unaudited pro forma net income and earnings per share reflects a pro forma tax provision for income taxes on the results of operations of RVS, IntraNet and MINT.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1999, the Company's principal sources of liquidity consisted of $70.5 million of cash and cash equivalents, as compared to $63.6 million at September 30, 1998.

The Company's net cash flows provided by operating activities for fiscal 1999, 1998 and 1997 were $40.3 million, $35.8 million and $34.2 million, respectively. The increase of $4.5 million in fiscal 1999 is principally due to higher net income and an increase in deferred revenue, partly offset by an increase in accrued receivables and a decrease in accrued liabilities. The increase of $1.6 million in fiscal 1998 is principally due to higher net income and increases in accrued liabilities and deferred revenue partly offset by increases in billed receivables. An important contributor to the cash management program is the Company's factoring of accrued receivables begun in fiscal 1998, whereby interest in its receivables are transferred (on a non-recourse basis) to third party financial institutions in exchange for cash. During fiscal 1999 and 1998, the Company generated operating cash flows from the factoring of accrued receivables of $30.9 million and $9.2 million, respectively.

The Company's net cash flows used in investing activities totaled $20.2 million, $24.9 million and $18.5 million in fiscal 1999, 1998 and 1997, respectively. The decrease in cash used in investing activities in fiscal 1999 as compared to 1998 is due to proceeds of $10.1 million received in the sale of US Processing, Inc. more than offsetting the increase in the amount of cash used for purchases of software, marketable securities and acquisitions. The increase in fiscal 1998 as compared to 1997 is due to an increase in the level of cash used to purchase property and equipment, marketable securities and additions to other investments and notes receivable. In each period, the Company made significant investments in computer equipment and software. The Company expects to continue to invest in these items to support its growth.

In fiscal 1999, the Company purchased 1.25 million shares of Digital Courier Technologies, Inc. (DCTI) Common Stock for $6.5 million. The Company also received warrants to purchase 1.0 million shares of DCTI Common Stock for an exercise price of $5.20 per share. In fiscal 1998, the Company purchased 2.5 million shares of Nestor, Inc. (Nestor) Common Stock for $5.0 million. The Company also received warrants to purchase 2.5 million shares of Nestor Common Stock for an exercise price of $3 per share.

In fiscal 1999, the Company's Board of Directors approved the repurchase of up to 2,000,000 shares of Common Stock through February 2000. The purpose of the stock repurchase program is to replace the shares issued in the SDM acquisition completed in July 1999, and to fund a reserve for shares for future employee stock option grants, acquisitions or other corporate purposes. Under this repurchase program, the Company purchased 475,000 shares at an average cost of $29.98 per share for approximately $14.2 million in fiscal 1999 and 500,300 shares at an average cost of $26.67 for approximately $13.3 million during the first quarter of fiscal 2000. The Company used cash flow from operations to fund the Common Stock repurchases.

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks associated primarily to changes in foreign currency exchange rates. The Company conducts business in all parts of the world. As a general rule, the Company's revenue contracts are denominated in U.S. dollars. Thus, any decline in the value of local foreign currencies against the U.S. dollar will result in the Company's products and services being more expensive to a potential foreign buyer, and in those instances where the Company's goods and services have already been sold, will result in the receivables being more difficult to collect. The Company does at times enter into revenue contracts that are denominated in the currency of the country in which it has substantive operations, principally the United Kingdom, Australia, Canada and Singapore. This practice serves as a natural hedge to finance the expenses incurred in those locations. The Company has not entered into, nor does it currently anticipate entering into, any foreign currency hedging transactions.

The Company does not purchase or hold any derivative financial instruments for the purpose of speculation or arbitrage.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Transaction Systems Architects, Inc.:

We have audited the accompanying consolidated balance sheets of Transaction Systems Architects, Inc. (a Delaware corporation) and Subsidiaries as of September 30, 1999 and 1998, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Transaction Systems Architects, Inc. and Subsidiaries as of September 30, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1999, in conformity with generally accepted accounting principles.

As explained in Note 2 to the consolidated financial statements, the Company changed its method of accounting for software license fees revenue upon the adoption of American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition," effective October 1, 1998.

ARTHUR ANDERSEN LLP

Omaha, Nebraska,
October 28, 1999

CONSOLIDATED BALANCE SHEETS (in thousands except share data) F-13

September 30,	1999	1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 70,482	$ 63,648
Marketable securities	8,456	2,188
Billed receivables, net of allowances of $7,251 and $5,148, respectively	50,619	58,080
Accrued receivables	41,880	33,000
Deferred income taxes	7,468	4,921
Other	7,215	3,585
Total current assets	186,120	165,422
Property and equipment, net	20,754	21,001
Software, net	25,835	7,172
Intangible assets, net	61,612	9,385
Long-term accrued receivables	26,850	2,056
Investments and notes receivable	3,569	16,754
Other	4,785	4,517
Total assets	$ 329,525	$ 226,307
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 501	$ 1,078
Accounts payable	8,030	13,720
Accrued employee compensation	7,192	8,426
Accrued liabilities	18,287	14,826
Income taxes	8,521	4,784
Deferred revenue	54,627	35,594
Total current liabilities	97,158	78,428
Long-term debt	991	2,002
Deferred income taxes	6,207	–
Total liabilities	104,356	80,430
Commitments and contingencies		
Stockholders' equity:		
Redeemable Convertible Preferred Stock, $.01 par value; 5,450,000 shares authorized; no shares issued and outstanding at September 30, 1999 and 1998		
Redeemable Convertible Class B Common Stock and Warrants, $.05 par value; 5,000,000 shares authorized; no shares issued and outstanding at September 30, 1999 and 1998		
Class A Common Stock, $.005 par value; 50,000,000 shares authorized; 32,580,637 and 29,873,947 shares issued at September 30, 1999 and 1998, respectively	163	150
Class B Common Stock, $.005 par value; 5,000,000 shares authorized; none and 1,171,252 shares issued and outstanding at September 30, 1999 and 1998, respectively	–	6
Additional paid-in capital	161,630	112,398
Retained earnings	82,922	38,222
Treasury stock, at cost, 475,845 shares and 845 shares at September 30, 1999 and 1998, respectively	(14,250)	(12)
Accumulated other comprehensive income	(5,296)	(4,887)
Total stockholders' equity	225,169	145,877
Total liabilities and stockholders' equity	$ 329,525	$ 226,307

The accompanying notes are an integral part of the consolidated financial statements.

F-14 CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (in thousands, except per share amounts)

Year Ended September 30,	1999	1998	1997
Revenues:			
Software license fees	$ 210,002	$ 166,875	$ 131,138
Maintenance fees	63,933	57,077	48,714
Services	76,857	70,688	58,234
Hardware, net	4,002	4,609	6,063
Total revenues	354,794	299,249	244,149
Expenses:			
Cost of software license fees	44,079	36,294	29,538
Cost of maintenance and services	72,096	69,886	57,821
Research and development	34,612	26,260	20,070
Selling and marketing	70,121	62,013	50,168
General and administrative:			
General and administrative costs	58,725	51,873	45,517
Amortization of goodwill and purchased intangibles	4,901	1,435	1,008
Total expenses	284,534	247,761	204,122
Operating income	70,260	51,488	40,027
Other income (expense):			
Interest income	2,947	3,204	2,291
Interest expense	(401)	(242)	(178)
Transaction related expenses	(653)	(2,512)	–
Other	(283)	(203)	(652)
Total other	1,610	247	1,461
Income before income taxes	71,870	51,735	41,488
Provision for income taxes	(27,170)	(19,476)	(14,325)
Net income	$ 44,700	$ 32,259	$ 27,163
Average shares outstanding:			
Basic	31,667	30,298	29,829
Diluted	32,363	31,193	30,707
Unaudited pro forma information (Note 3)			
Pro forma net income	$ 44,613	$ 31,432	$ 25,278
Pro forma earnings per share data:			
Basic	$ 1.41	$ 1.04	$ 0.85
Diluted	$ 1.38	$ 1.01	$ 0.82
Net income	$ 44,700	$32,259	$ 27,163
Other comprehensive income:			
Foreign currency translation adjustments	(178)	(1,815)	(24)
Unrealized investment holding loss	(231)	(2,812)	–
Comprehensive income	$ 44,291	$ 27,632	$ 27,139

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (in thousands, except share amounts) F-15

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance, September 30, 1996, as previously reported	$ 133	$ 11	$ 96,984	$ (16,540)	$ (12)	$ (236)	$ 80,340
Adjustment for Media Integration BV pooling of interests	4	–	346	73	–	–	423
Balance, September 30, 1996, as restated	137	11	97,330	(16,467)	(12)	(236)	80,763
Adjustment for Open Systems Solutions, Inc. pooling of interests	1	–	5	(176)	–	–	(170)
Sale of Class A Common Stock pursuant to Employee Stock Purchase Plan	–	–	778	–	–	–	778
Conversion of Class B Common Stock to Class A Common Stock	5	(5)	–	–	–	–	–
Exercise of stock options	1	–	1,268	–	–	–	1,269
Distribution to RVS and Intranet, Inc. owners	–	–	–	(4,320)	–	–	(4,320)
Tax benefit of stock options exercised	–	–	2,586	–	–	–	2,586
Sale of stock options	–	–	3,132	–	–	–	3,132
Net income	–	–	–	27,163	–	–	27,163
Foreign currency translation adjustments	–	–	–	–	–	(24)	(24)
Balance, September 30, 1997	144	6	105,099	6,200	(12)	(260)	111,177
Adjustment for immaterial pooled businesses	4	–	17	663	–	–	684
Issuance of Class A Common Stock for purchase of Coyote Systems, Inc.	1	–	1,086	–	–	–	1,087
Sale of Class A Common Stock pursuant to Employee Stock Purchase Plan	–	–	971	–	–	–	971
Exercise of stock options	1	–	2,099	–	–	–	2,100
Distribution to Intranet, Inc. owners	–	–	–	(900)	–	–	(900)
Tax benefit of stock options exercised	–	–	3,126	–	–	–	3,126
Unrealized investment holding loss	–	–	–	–	–	(2,812)	(2,812)
Net income	–	–	–	32,259	–	–	32,259
Foreign currency translation adjustments	–	–	–	–	–	(1,815)	(1,815)
Balance, September 30, 1998	150	6	112,398	38,222	(12)	(4,887)	145,877
Issuance of Class A Common Stock for purchase of Insession, Inc.	4	–	28,421	–	–	–	28,425
Issuance of Class A Common Stock for purchase of SDM International, Inc.	2	–	14,485	–	–	–	14,487
Sale of Class A Common Stock pursuant to Employee Stock Purchase Plan	–	–	1,339	–	–	–	1,339
Conversion of Class B Common Stock to Class A Common Stock	6	(6)	–	–	–	–	–
Purchase of 475,000 shares of Class A Common Stock	–	–	–	–	(14,238)	–	(14,238)
Exercise of stock options	1	–	2,216	–	–	–	2,217
Tax benefit of stock options exercised	–	–	2,771	–	–	–	2,771
Unrealized investment holding loss	–	–	–	–	–	(231)	(231)
Net income	–	–	–	44,700	–	–	44,700
Foreign currency translation adjustments	–	–	–	–	–	(178)	(178)
Balance, September 30, 1999	$ 163	$ –	$ 161,630	$ 82,922	$ (14,250)	$ (5,296)	$ 225,169

The accompanying notes are an integral part of the consolidated financial statements.

F-16 CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

Year Ended September 30,	1999	1998	1997
Cash flows from operating activities:			
Net income	$ 44,700	$ 32,259	$ 27,163
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	8,270	6,449	5,475
Amortization	13,206	5,022	4,404
(Increase) decrease in receivables, net	892	(17,949)	(17,238)
(Increase) decrease in other current assets	(2,550)	(345)	1,068
(Increase) decrease in long-term accrued receivables	(24,794)	338	(801)
Increase in other assets	(1,261)	(1,696)	(736)
Increase (decrease) in accounts payable	(2,424)	2,340	(947)
Increase (decrease) in accrued employee compensation	(1,332)	(390)	325
Increase (decrease) in accrued liabilities	(9,616)	6,289	3,561
Increase in income tax liabilities	3,239	839	3,432
Increase in deferred revenue	11,932	2,644	8,459
Net cash provided by operating activities	40,262	35,800	34,165
Cash flows from investing activities:			
Purchases of property and equipment	(7,322)	(8,936)	(7,702)
Purchases of software and distribution rights	(6,891)	(3,702)	(7,368)
Purchase of marketable securities	(6,500)	(5,000)	–
Acquisition of businesses, net of cash acquired	(8,949)	417	(2,612)
Proceeds from sale of business	10,093	–	–
Additions to investments and notes receivable	(602)	(7,840)	(5,036)
Proceeds from notes receivable repayments	–	149	4,180
Net cash used in investing activities	(20,171)	(24,912)	(18,538)
Cash flows from financing activities:			
Proceeds from issuance of Class A Common Stock	1,339	971	779
Proceeds from sale and exercise of stock options	2,216	2,062	5,233
Purchase of Class A Common Stock	(14,238)	–	–
Distribution to RVS and Intranet owners	–	(900)	(4,320)
Payments of long-term debt	(2,792)	(1,585)	(1,549)
Net cash provided by (used in) financing activities	(13,475)	548	143
Effect of exchange rate fluctuations on cash	218	(643)	(442)
Net increase in cash and cash equivalents	6,834	10,793	15,328
Cash and cash equivalents, beginning of period	63,648	52,855	37,527
Cash and cash equivalents, end of period	$ 70,482	$ 63,648	$ 52,855
Supplemental cash flow information:			
Income taxes paid	$ 24,039	$ 19,653	$ 8,848
Interest paid	$ 397	$ 304	$ 175

The accompanying notes are an integral part of the consolidated financial statements.

1. GENERAL

Transaction Systems Architects, Inc. (the Company or TSA) was formed on November 2, 1993, for the purpose of acquiring all of the outstanding capital stock of Applied Communications, Inc. (ACI) and Applied Communications Inc Limited (ACIL). The Company did not have substantive operations prior to the acquisition of ACI and ACIL.

The Company develops, markets and supports a broad line of software products and services primarily focused on facilitating electronic payments and electronic commerce. In addition to its own products, the Company distributes software developed by third parties. The products are used principally by financial institutions, retailers and third-party processors, both in domestic and international markets.

The Company derives a substantial portion of its revenue from licensing its BASE24 family of software products and providing services and maintenance related to those products. BASE24 products operate on Compaq Inc.'s NonStop Himalaya servers. The Company's future results depend, in part, on market acceptance of Compaq's NonStop Himalaya servers and the financial success of Compaq, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

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

Revenue Recognition
The Company's software license fees pricing method is transaction sensitive, whereby products are priced based upon the number of transactions processed by the customer ("transaction-based pricing"). Under this method, customers license the products by paying an Initial License Fee (ILF), where the customer pays a significant portion of the total software license fees at the beginning of the software license term, and a Monthly License Fee (MLF), where the customer pays a portion of the software license fees over the software license term. The payment of the ILF and MLF allows the customer to process a contractually predetermined maximum volume of transactions per month for a specified period of time. Once the transaction volume exceeds this maximum volume level, the customer is required to pay an additional license fee which is in the form of a Capacity License Fee (CLF), collected at the beginning of the period the customer contracts for an incremental volume level, and a Capacity Monthly License Fee (CMLF), collected over the software license term. There is a separate license fee for each incremental volume level. In addition to transaction-based pricing, the Company offers a hardware specific pricing method whereby the product is priced on a per copy basis and tiered to recognize different performance levels of the processing hardware ("designated equipment group pricing"). Under designated equipment group pricing, the customers pay a license fee (in the form of an ILF and MLF) for each copy of the software the customers have licensed for a specified period of time. Under both the transaction-based pricing method and the designated equipment group pricing method, the Company offers a paid up front (PUF) payment option, whereby the present value of the MLF or CMLF is due at the beginning of the software license term. The standard software license term under either pricing method is typically 60 months, but may extend over a shorter or longer period. Other elements of the software licensing arrangement typically include postcontract customer support (maintenance) and, occasionally, services.

Beginning in fiscal 1999, the Company adopted American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition" (SOP 97-2). SOP 97-2 provides guidance on applying generally accepted accounting principles for software revenue recognition transactions. The primary software revenue recognition criteria outlined in SOP 97-2 include: evidence of an arrangement; delivery; fixed or determinable fees; and collectibility.

SOP 97-2 specifies that extended payment terms in a software licensing arrangement may indicate that the software license fees are not deemed to be fixed or determinable. In addition, if payment of a significant portion of the software license fees is not due until more than twelve months after delivery, the software license fees should be *presumed* not to be fixed or determinable, and thus should be recognized as the payments become due. However, SOP 97-2 specifies that if the Company has a standard business practice of using extended payment terms in software licensing arrangements and has a history of successfully collecting the software license fees under the original terms of the software licensing arrangement without making concessions, the Company can overcome the presumption that the software license fees are not fixed or determinable. If the presumption is overcome, the Company should recognize the software license fees when all other SOP 97-2 revenue recognition criteria are met.

The Company has concluded that for certain software arrangements entered into after October 1, 1998 with extended guaranteed payment terms, the "fixed or determinable" presumption has been overcome and software license fees should be recognized upon meeting the SOP 97-2 revenue recognition criteria ("guaranteed software license fees"). The present value of the guaranteed software license fees, net of third party royalties, recognized in fiscal 1999 totaled approximately $60.5 million. The discount rates used to determine the present value of the guaranteed software license fees, representing the Company's incremental borrowing rates, ranged from 9.5% to 10.25%. The portion of the guaranteed software license fees that has been recognized by the Company, but not yet billed, is reflected in accrued receivables in the accompanying consolidated balance sheets.

Failing to overcome the "fixed or determinable" presumption would have resulted in the Company recognizing the ILF and CLF components of the software license fees related to these certain software arrangements when the software was delivered (or in the reporting period that the incremental volume level was effective), and the MLF and CMLF components of the software license fees would have been recognized ratably over the software license term as they were billed. Software license fees revenue related to those software arrangements that would have been recognized in fiscal 1999 had the Company not been able to overcome the presumption that the software license fees were not fixed or determinable fees would have been approximately $5.1 million.

The maintenance element of the software arrangements with extended guaranteed payment terms where the Company has determined that the software license fees are fixed or determinable have been segregated from the software license fees and are being recognized over the term of the maintenance agreement. Maintenance fees are recognized ratably over the period maintenance is provided. Services revenues are recognized as the services are performed.

Software license fees for fiscal 1999, 1998 and 1997 consisted of the following (in thousands):

	1999	1998	1997
Initial license fees (ILF, CLF, PUF)	$ 95,002	$ 123,175	$ 98,738
Monthly license fees (MLF, CMLF)	54,500	43,700	32,400
Guaranteed software license fees	60,500	–	–
	$ 210,002	$ 166,875	$ 131,138

Factoring of Accrued Receivables

In fiscal 1998, the Company initiated a program to sell the rights to future payment streams under selected software arrangements with extended guaranteed payment terms to financing institutions on a non-recourse basis. Upon determination that 1) the Company had satisfied all of the software revenue recognition criteria and 2) the Company had surrendered control over the future payment stream to the financing institutions in accordance with Statement of Financial Accounting Standard (SFAS) No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", the Company recognized software license fees equal to the net proceeds from these arrangements. The software license fees recognized as the result of this program in fiscal 1998 totaled approximately $9.2 million. During fiscal 1999, the Company sold the rights to future payment streams under selected software arrangements with extended guaranteed payment terms and received cash of approximately $30.9 million, resulting in an equivalent reduction in accrued receivables.

Deferred Revenue
In certain instances, the Company collects cash from customers, or financing institutions under receivable factoring arrangements, prior to the delivery of the software product or performance of contracted maintenance or services.

Software
The Company capitalizes certain software development costs when the resulting products reach technological feasibility and begins amortization of such costs upon the general availability of the products for licensing. Amortization of capitalized software development costs begins when the products are available for general release to customers and is computed separately for each product as the greater of (a) the ratio of current gross revenue for a product to the total of current and anticipated gross revenue for the product or (b) the straight-line method over the remaining estimated economic life of the product. Currently, estimated economic lives of three years are used on the calculation of amortization of these capitalized costs. Due to competitive pressures, it may be possible the anticipated gross revenue or remaining estimated economic life of the software products will be reduced significantly. As a result, the carrying amount of the software product may be reduced accordingly. Software development costs capitalized in fiscal 1999, 1998 and 1997 totaled $3.6 million, $900,000 and $1.6 million, respectively. Amortization of internally developed software in fiscal 1999, 1998 and 1997 totaled $1.6 million, $1.5 million and $900,000, respectively.

Purchased software is stated at cost and amortized using the straight-line method over three years.

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

Intangible Assets
Intangible assets consist of goodwill arising from acquisitions and are being amortized using the straight-line method over ten years. As of September 30, 1999 and 1998, accumulated amortization of the intangible assets was $10.8 million and $3.6 million, respectively.

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

Cash and Cash Equivalents
The Company considers all highly liquid investments with original maturities of less than 90 days to be cash equivalents.

Financial Instruments with Market Risk and Concentrations of Credit Risk
The concentration of credit risk in the Company's receivables with respect to financial services, retailers, processors and networks is mitigated by the Company's credit evaluation policy, reasonably short collection terms and geographical dispersion of sales transactions. The Company generally does not require collateral or other security to support accounts receivable.

Long-Lived Assets
The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered.

Stock-Based Compensation
The Company accounts for its stock-based compensation plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and follows the disclosure provisions of SFAS No. 123 "Accounting for Stock-Based Compensation." See Note 10 for the required disclosures under SFAS No. 123.

3. ACQUISITIONS

In October 1996, the Company and Open Systems Solutions, Inc. (OSSI) completed a share exchange transaction which resulted in OSSI becoming a wholly-owned subsidiary of the Company. Stockholders of OSSI received 210,000 shares of TSA Class A Common Stock in exchange for 100% of OSSI's common stock. The stock exchange was accounted for as a pooling of interests. OSSI's results of operations prior to the acquisition were not material.

In May 1997, the Company and Regency Voice Systems, Inc. and related entities (RVS) completed a stock exchange transaction which resulted in RVS becoming a wholly-owned subsidiary of the Company. Shareholders of RVS received 1,615,383 shares of Class A Common Stock in exchange for 100% of RVS's shares. The stock exchange was accounted for as a pooling of interests. Accordingly, the Company's financial statements were restated in fiscal 1997 to include the results of RVS for all periods presented.

During fiscal 1998, the Company acquired all of the outstanding securities of IntraNet, Inc., Edgeware, Inc., Coyote Systems, Inc., Professional Resources, Inc. and Smart Card Integrators Ltd. in separate transactions. These companies were principally engaged in the development and sale of electronic payments software products and services. The aggregate number of shares issued for all transactions was 1,950,136 shares of Class A Common Stock. All transactions, except for Coyote Systems, Inc. which was accounted for under the purchase method of accounting, were accounted for as pooling of interests. The excess purchase price over the estimated fair value of the net tangible assets acquired from Coyote Systems, Inc. amounted to $1.1 million and was allocated to goodwill which is being amortized over ten years. In fiscal 1998, the Company's financial statements were restated for IntraNet, Inc. (IntraNet) for all periods presented. The results of operations prior to the acquisitions of the remaining companies were not material.

During fiscal 1999, the Company acquired all of the outstanding securities of Media Integration BV (MINT), which is located in the Netherlands. MINT's products are used to issue and manage multi-funtional applications on smart cards. Shareholders of MINT received 740,000 shares of Class A Common Stock. The stock exchange was accounted for as a pooling of interests. The Company's financial statements have been restated for MINT for all periods presented.

Also during fiscal 1999, the Company acquired all of the outstanding securities of Insession, Inc., SDM International, Inc. (SDM), US Processing, Inc. (USPI) and the remaining 49% of its South African distributor (Applied Communications (Propriety) Limited) in separate transactions. These companies are principally engaged in the development and sale of electronic payments software products, services or transaction processing. All transactions were accounted for under the purchase method of accounting. The aggregate purchase price for all these transactions was 1,205,000 shares of Class A Common Stock, with a fair market value at the time of the purchases of approximately $43 million, $19.6 million in cash and the forgiveness of $5.6 million of debt owed to TSA. The excess purchase price over the estimated fair value of the net tangible assets acquired amounted to $84.5 million, of which $66.3 million was allocated to goodwill which is being amortized over ten years and $18.2 was allocated to software which is being amortized over three years. On September 30, 1999, the Company sold USPI for $10.1 million in cash which approximated its carrying value.

No pro forma financial statements for the periods prior to the acquisitions have been provided due to the amounts being immaterial.

Combined and separate results of the Company and MINT during the periods preceding the merger are listed below (in thousands).

	Three Months ended December 31, 1998	Year ended September 30, 1998	Year ended September 30, 1997
Total revenues:	(unaudited)		
Company	$ 84,844	$ 289,761	$ 238,533
MINT	1,226	9,488	5,616
	$ 86,070	$ 299,249	$ 244,149
Net income:			
Company	$ 9,227	$ 31,759	$ 25,755
MINT	230	500	1,408
	$ 9,457	$ 32,259	$ 27,163

Prior to their acquisitions, RVS and IntraNet were taxed primarily as a partnership and a Subchapter S corporation, respectively. In addition, prior to its acquisition, MINT's earnings were not subject to income taxes. The unaudited pro forma net income and earnings per share in the accompaning consolidated statements of income reflects a pro forma tax provision for income taxes on the results of operations of RVS, IntraNet and MINT for the periods prior to their acquisition, as listed below (in thousands):

Unaudited pro forma information:			
Net income – historical	$9,457	$32,259	$27,163
RVS tax adjustment – pro forma	–	–	(507)
IntraNet tax adjustment – pro forma	–	(633)	(843)
MINT tax adjustment – pro forma	(87)	(194)	(535)
Net income – pro forma	$9,370	$31,432	$25,278

4. MARKETABLE SECURITIES

In April 1998, the Company entered into a transaction with Nestor, Inc. (Nestor), whereby the Company acquired 2.5 million shares of Nestor's Common Stock for $5.0 million. In addition, the Company received warrants to purchase an additional 2.5 million shares at an exercise price of $3 per share. Nestor is a provider of neural-network solutions for financial, internet and transportation industries. The Company distributes Nestor's PRISM intelligent fraud detection product.

In June 1999, the Company entered into a transaction with Digital Courier Technologies, Inc. (DCTI), whereby the Company acquired 1.25 million shares of DCTI's Common Stock for $6.5 million. In addition, the Company received warrants to purchase an additional 1.0 million shares at an exercise price of $5.20 per share. DCTI supplies financial institutions, businesses and major web portals with e-commerce, payments processing and content delivery software.

The Company has accounted for the investment in Nestor and DCTI Common Stock in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The investments in marketable securities have been classified as available-for-sale and recorded at fair market value, which is estimated based on quoted market prices. Net unrealized holding gains and losses, net of the related tax effect, are reflected in the consolidated financial statements as a component of accumulated other comprehensive income. Gains and losses are determined by specific identification.

5. COMPREHENSIVE INCOME

In fiscal 1999, the Company adopted SFAS No. 130, “Reporting Comprehensive Income”, which establishes standards for reporting and display of comprehensive income and its components in a financial statement for the period in which they are recognized. The Company’s components of accumulated other comprehensive income were as follows (in thousands):

	Foreign Currency Translation Adjustments	Unrealized Investment Holding Loss	Accumulated Other Comprehensive Income
Balance, September 30, 1996	$ (236)	$ –	$ (236)
Fiscal 1997 activity	(24)	–	(24)
Balance, September 30, 1997	(260)	–	(260)
Fiscal 1998 activity	(1,815)	(2,812)	(4,627)
Balance, September 30, 1998	(2,075)	(2,812)	(4,887)
Fiscal 1999 activity	(178)	(231)	(409)
Balance, September 30, 1999	$ (2,253)	$ (3,043)	$ (5,296)

Since the Company has established an asset valuation allowance against its net deferred tax assets, the components of accumulated other comprehensive income have not been tax affected.

6. EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the dilutive effect of outstanding stock options using the “treasury stock” method.

The following table sets forth the computation of basic and diluted earnings per share:

(in thousands, except per share data)	1999	1998	1997
Net income	$ 44,700	$ 32,259	$ 27,163
Unaudited net income – pro forma	$ 44,613	$ 31,432	$ 25,278
Weighted average shares outstanding	31,667	30,298	29,829
Dilutive effect of stock options	696	895	878
Diluted shares outstanding	32,363	31,193	30,707
Basic earnings per share – pro forma	$ 1.41	$ 1.04	$ 0.85
Diluted earnings per share – pro forma	$ 1.38	$ 1.01	$ 0.82

For fiscal years 1999, 1998 and 1997, weighted average shares from stock options of 96,025, 25,833 and 17,872, respectively have been excluded from the computation of diluted earnings per share because the exercise price of the stock options were greater than the average market price of the common shares.

7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

September 30,	1999	1998
Computer equipment	$ 38,321	$ 32,496
Office furniture and fixtures	8,439	7,196
Leasehold improvements	6,058	4,050
Vehicles	639	779
	53,457	44,521
Less accumulated depreciation and amortization	(32,703)	(23,520)
Property and equipment, net	$ 20,754	$ 21,001

8. SOFTWARE

Software consists of the following (in thousands):

September 30,	1999	1998
Internally developed software	$ 10,905	$ 7,328
Purchased software	39,663	16,960
	50,568	24,288
Less accumulated amortization	(24,733)	(17,116)
Software, net	$ 25,835	$ 7,172

9. COMMITMENTS AND CONTINGENCIES

Operating Leases
The Company leases office space and equipment under operating leases which run through February 2011. Aggregate minimum lease payments under these agreements for the years ending September 30 are as follows (in thousands):

2000	$ 9,029
2001	7,977
2002	6,336
2003	5,604
2004	4,641
Thereafter	13,638
Total	$ 47,225

Total rent expense for the fiscal years ended September 30, 1999, 1998 and 1997 was, $12,556,000, $9,738,000 and $8,739,000, respectively.

Legal Proceedings
On June 14, 1999, HNC Software Inc. filed a complaint against the Company and its wholly-owned subsidiary, ACI Worldwide, Inc. in the United States District Court for the Southern District of California, San Diego Division. The complaint alleges, among other things, patent infringement, unfair competition, false advertising, and trade libel relating to ACI Worldwide's distribution of PRISM, a fraud detection software product. ACI distributes PRISM pursuant to a license agreement with Nestor, Inc., a company in which TSA is a minority stockholder. The complaint seeks injunctive relief and unspecified damages including treble damages, costs, attorneys' fees and various other forms of relief. On November 25, 1998, Nestor had itself filed a complaint in the United States District Court for the District of Rhode Island against HNC Software alleging, among other things, infringement of a patent relating to PRISM and antitrust violations. HNC Software has filed a counterclaim in the Rhode Island lawsuit alleging infringement by Nestor of HNC Software's patents which claims are essentially the same as those filed by HNC Software against the Company and ACI Worldwide in the San Diego lawsuit. Neither the Company nor ACI Worldwide was a party to the Rhode Island lawsuit. However, because the same patents and the same products are at issue in both lawsuits, the Company and ACI Worldwide are seeking to have the San Diego lawsuit transferred to Rhode Island and consolidated with the proceedings there. Whatever the final procedural posture of the lawsuit, the Company intends to vigorously defend against HNC Software's allegations.

In addition, from time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. The Company is not currently a party to any legal proceedings the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on the Company's financial condition or results of operations.

10. STOCK-BASED COMPENSATION PLANS

Stock Incentive Plans
The Company has a 1994 Stock Option Plan whereby 1,910,976 shares of the Company's Class B Common Stock have been reserved for issuance to eligible employees of the Company and its subsidiaries. Shares issuable upon exercise of these options will be Class A Common Stock. The stock options are granted at a price set by the Board of Directors provided that the minimum price shall be $2.50 per share for 955,488 shares and $5 per share for 955,488 shares. The term of the outstanding options is ten years. The stock options vest ratably over a period of four years.

The Company has a 1996 and 1999 Stock Option Plan whereby a total of 2,008,000 shares of the Company's Class A Common Stock have been reserved for issuance to eligible employees of the Company and its subsidiaries and non-employee members of the Board of Directors. The stock options are granted at a price not less than fair market value of the Company's Class A Common Stock at the time of the grant. The term of the outstanding options is ten years. The options vest annually over a period of four years.

The Company has a 1997 Management Stock Option Plan whereby 1,050,000 shares of the Company's Class A Common Stock have been reserved for issuance to eligible management employees of the Company and its subsidiaries. The stock options are granted at a price not less than fair market value of the Company's Class A Common Stock at the time of the grant and require the participant to pay $3 for each share granted. The term of the outstanding options is ten years. The options vest annually over a period of four years.

A summary of the stock options issued under the Stock Incentive Plans previously described and changes during the years ending September 30 are as follows:

	1999		1998		1997	
	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
Outstanding on October 1,	2,811,507	–	2,794,437	$ 16.82	1,731,439	$ 7.18
Granted	894,890	$ 30.57	387,650	$ 34.30	1,387,567	$ 26.27
Exercised	285,445	$ 7.53	325,371	$ 6.35	283,862	$ 4.57
Cancellations	67,978	$ 31.76	45,209	$ 25.20	40,707	$ 13.83
Outstanding on September 30	3,352,974	$ 23.91	2,811,507	$ 20.30	2,794,437	$ 16.82
Options exercisable at end of year	1,497,100	$ 17.09	1,275,778	$ 11.19	909,429	$ 5.04
Shares available on September 30 for options that may be granted	347,375		174,287		516,728	
Weighted-average grant date fair value of options granted during the year – exercise price equals stock market price at grant		$ 14.10		$ 17.74		$ 13.01

The following table summarizes information about stock options outstanding at September 30, 1999.

	Options Outstanding			Options Exercisable	
Range of Exercise prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.50	244,273	4.36	$ 2.50	244,273	$ 2.50
$5.00	383,455	5.09	5.00	383,330	5.00
$7.50 to $9.75	10,397	5.43	7.93	10,397	7.93
$12.00 to $16.50	16,917	6.18	14.19	15,833	14.11
$20.25 to $25.875	1,157,434	7.33	24.40	594,725	24.43
$26.4375 to $31.625	901,228	9.39	30.23	41,546	29.70
$32.0625 to $35.75	529,595	8.31	33.27	186,743	33.28
$36.00 to $45.00	109,675	8.58	38.28	20,253	38.24
	3,352,974	7.60	$23.91	1,497,100	$17.09

Employee Stock Purchase Plan

The Company has a 1996 and 1999 Employee Stock Purchase Plan whereby a total of 1,150,000 shares of the Company's Class A Common Stock have been reserved for sale to eligible employees of the Company and its subsidiaries. Employees may designate up to the lesser of $5,000 or 10% of their annual compensation for the purchase of stock under these plans. The price for shares purchased under the plan is 85% of market value the lower of the first or last day of the purchase period. Purchases are made at the end of each fiscal quarter. Shares issued under these plans for the years ended September 30, 1999, 1998 and 1997 totaled 48,148, 30,881 and 27,748, respectively.

Stock-Based Compensation Plans
The Company adopted the disclosure provisions of SFAS No. 123. No compensation cost has been recognized for the stock incentive plans.

Had compensation expense for the Company's stock-based compensation plans been based on the fair value of the stock options at the grant dates for awards under those plans consistent with the fair value based method of SFAS No. 123, the Company's net income and net income per common and equivalent share for fiscal 1999, 1998 and 1997 would approximate the pro forma amounts as follows (in thousands, except per share amounts):

Year ended September 30,	1999	1998	1997
Net income–historical:			
As reported	$ 44,700	$ 32,259	$ 27,163
Pro forma	42,820	30,233	25,850
Unaudited net income–pro forma:			
As reported	44,613	31,432	25,278
Pro forma	42,733	29,406	23,965
Pro forma net income per share–basic	$ 1.35	$ 0.97	$ 0.80
Pro forma net income per share–diluted	$ 1.32	$ 0.94	$ 0.78

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Year ended September 30,	1999	1998	1997
Expected life	5.8	5.8	5.8
Interest rate	5.7%	5.5%	6.3%
Volatility	38%	39%	38%
Dividend yield	–	–	–

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. SFAS No. 123 applies only to options granted since fiscal year 1996, and additional awards in future years are anticipated.

11. EMPLOYEE BENEFIT PLANS

TSA 401(k) Retirement Plan
The 401(k) Retirement Plan is a defined contribution plan covering all domestic employees of TSA. Participants may contribute up to 15% of their annual wages. Beginning January 1, 1998, TSA began matching 160% of participant contributions up to a maximum of 2.5% of compensation, not to exceed $2,500. Prior to January 1, 1998, TSA matched 100% of participants contributions up to a maximum of 2.5%. TSA's contributions charged to expense during the years ended September 30, 1999, 1998 and 1997 were $2,318,000, $1,197,000 and $489,000, respectively.

ACI Profit Sharing Plan and Trust
The Company had a Profit Sharing Plan and Trust which was a non-contributory profit sharing plan covering all employees of ACI provided they were at least 21 years of age and had completed one year of service. Effective October 1, 1997 the ACI Profit Sharing Plan and Trust was merged into the 401(k) Retirement Plan. The plan provided for ACI to contribute a discretionary amount as determined annually by the Company's President and Chief Financial Officer. ACI's contributions charged to expense during the fiscal year ended September 30, 1997 was $480,000.

TSA Deferred Compensation Plan
Effective January 1, 1999, the Company adopted a Deferred Compensation Plan for a select group of management or highly compensated employees who elect to participate in the plan. No company contributions are made to the plan and participants are 100% vested in their contributions.

ACIL Pension Plan

ACIL has a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employees' compensation during employment. Contributions to the plan are determined by an independent actuary on the basis of periodic valuations using the projected unit cost method. Participants contribute 5% of their pensionable salaries and ACIL contributes at the rate of 10% of pensionable salaries. Net periodic pension expense includes the following components (in thousands):

Year Ended September 30,	1999	1998	1997
Service cost	$ 2,301	$ 1,666	$ 1,307
Interest cost on projected benefit obligation	1,156	1,192	830
Return on plan assets:			
Actual and gain deferred	(1,657)	(1,501)	(1,055)
Amortization of unrecognized gain	136	(85)	3
Total periodic pension expense	$ 1,936	$ 1,272	$ 1,085

The following table summarizes the funded status of the plan and the related amounts recognized in the Company's consolidated balance sheet (in thousands):

September 30,	1999	1998
Projected benefit obligation	$ 23,339	$ 18,439
Plan assets at fair value, primarily investments in marketable equity securities of United Kingdom companies	22,776	17,467
Plan assets less than projected benefit obligation	(563)	(972)
Unrecognized gain	(1,682)	(826)
Accrued pension cost	$ (2,245)	$ (1,798)

The most significant actuarial assumptions used in determining the pension expense and funded status of the plan are as follows:

	1999	1998	1997
Discount rate for valuing liabilities	6.25%	6.0%	8.0%
Expected long-term rate of return on assets	9.25%	7.0%	9.0%
Rate of increase in future compensation levels	3.75%	3.5%	6.0%

12. TREASURY STOCK

In fiscal 1999, the Company acquired 475,000 shares of its Class A Common Stock at an average cost of $29.98 per share in connection with a stock repurchase program announced in May 1999. The program authorized the Company to purchase up to 2,000,000 common shares from time to time through February 2000 for cash at market prices in open market, negotiated or block transactions. The purpose of the stock repurchase program is to replace the shares issued in the SDM acquisition completed in July 1999, and to fund a reserve of shares for future employee stock options grants, acquisitions or other corporate purposes.

13. SEGMENT INFORMATION

The Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" in fiscal 1999. The Company has a single operating segment encompassing the development, marketing, installation and technical support of a broad line of software products and services primarily focused on facilitating electronic payments and electronic commerce. The Company's chief operating decision makers review financial information, presented on a consolidated basis, accompanied by disaggregated information about revenue and contribution margin by product, as organized into four line-of-business groups, and revenue and contribution margin by geographic area.

The Company's four line-of-business groups are Consumer Banking, Corporate Banking, Retail Solutions and System Solutions. Products are developed by the line-of-business groups and are sold and supported through three distribution networks covering the geographic areas of the Americas, Europe/Middle East/Africa (EMEA) and Asia/Pacific. The Company allocates resources to and evaluates performance of its lines-of-business groups and geographic areas based upon revenue and contribution margin.

The following is revenues and contribution margin for the Company's four lines-of-business groups for fiscal years 1999, 1998 and 1997:

	1999	1998	1997
Revenues:			
Consumer Banking	$ 256,430	$ 215,947	$ 175,014
Corporate Banking	30,061	30,825	31,063
Retail Solutions	22,579	23,023	16,476
System Solutions	45,724	29,454	21,596
	$ 354,794	$ 299,249	$ 244,149
Contribution margin from lines-of-business groups:			
Consumer Banking	$ 219,803	$ 186,364	
Corporate Banking	7,807	7,595	
Retail Solutions	5,763	10,108	
System Solutions	40,552	25,966	
	$ 273,925	$ 230,033	
Profit reconcilliation:			
Contribution margin from lines-of-business groups	$ 273,925	$ 230,033	
Direct costs for geographic areas:			
Americas	(86,725)	(64,860)	
EMEA	(64,729)	(59,474)	
Asia/Pacific	(19,257)	(20,724)	
Corporate expenses	(32,944)	(33,487)	
Operating Income	$ 70,260	$ 51,488	

The Company does not track assets by line-of-business group. Direct costs for lines-of-business groups for fiscal 1997 are not available.

The following is revenue, contribution margin and long-lived assets for the Company's three geographic areas for fiscal years 1999, 1998 and 1997:

	1999	1998	1997
Revenues:			
United States	$ 167,236	$ 134,506	$ 112,455
Americas – other	43,070	39,564	33,370
Total Americas	210,306	174,070	145,825
EMEA	113,096	96,979	70,408
Asia/Pacific	31,392	28,200	27,916
	$ 354,794	$ 299,249	$ 244,149
Contribution margin from geographic areas:			
Total Americas	$ 123,581	$ 109,210	$ 91,061
EMEA	48,367	37,505	6,722
Asia/Pacific	12,125	7,476	5,448
	$ 184,073	$ 154,191	$ 103,231
Profit Reconcilliation:			
Contribution margin for geographic areas	$ 184,073	$ 154,191	
Direct Costs for lines-of-business groups:			
Consumer Banking	(36,627)	(29,583)	
Corporate Banking	(22,254)	(23,230)	
System Solutions	(16,816)	(12,915)	
Retail Solutions	(5,172)	(3,488)	
Corporate expenses	(32,944)	(33,487)	
Operating Income	$ 70,260	$ 51,488	
Long-lived assets:			
Americas (primarily United States)	$ 103,425	$ 47,044	$ 35,072
EMEA	11,520	10,530	9,937
Asia/Pacific	1,620	1,255	1,408
	$ 116,555	$ 58,829	$ 46,417

No single customer accounted for more than 10% of the Company's consolidated revenue during fiscal years 1999, 1998 and 1997.

14. INCOME TAXES

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". SFAS No. 109 is an asset and liability approach which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events which have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, SFAS No. 109 generally considers all expected future events other than enactments or changes in the tax law or rates.

The provision for income taxes consists of the following (in thousands):

For the Year Ended September 30,	1999			1998			1997		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
Federal	$ 18,360	$ (2,413)	$ 15,947	$ 13,433	$ (1,212)	$ 12,221	$ 7,022	$ 1,355	$ 8,377
State	3,171	(341)	2,830	2,252	(257)	1,995	1,905	240	2,145
Foreign	8,393	–	8,393	5,260	–	5,260	3,803	–	3,803
Total	$ 29,924	$ (2,754)	$ 27,170	$ 20,945	$ (1,469)	$ 19,476	$ 12,730	$ 1,595	$ 14,325

The difference between the income tax provision computed at the statutory federal income tax rate and the financial statement provision for income taxes is summarized as follows:

For the Year Ended September 30,	1999	1998	1997
Tax expense at federal rate of 35%	$ 25,155	$ 17,932	$ 14,028
Losses with no current tax benefit	240	22	1,503
Effective state income tax	2,112	1,508	1,394
Foreign tax rate differential	1,097	385	1,160
RVS nontaxable income	–	–	(663)
IntraNet nontaxable income	–	(564)	(766)
Recognition of deferred income tax assets previously reserved against	(3,235)	(830)	(2,979)
Amortization of intangibles	1,269	–	–
Transaction related expenses	239	461	–
Other	293	562	648
	$ 27,170	$ 19,476	$ 14,325

The deferred tax assets and liabilities result from differences in the timing of the recognition of certain income and expense items for tax and financial accounting purposes. The sources of these differences are as follows (in thousands):

September 30,	1999	1998
Deferred assets:		
Depreciation	$ 138	$ 167
Amortization	3,807	4,822
Foreign taxes	2,082	1,122
Acquired net operating loss carryforward of USSI	1,575	1,167
Net operating loss carryforward	3,004	1,058
Acquired basis in partnership assets	5,518	6,016
Unrealized investment holding loss	1,184	1,094
Other	1,376	1,140
	$ 18,684	16,586
Deferred tax asset valuation allowance	(11,216)	(11,665)
Deferred liabilities:		
Acquired Software	(5,953)	–
Other	(254)	(288)
	(6,207)	(288)
	$ 1,261	$ 4,633

At September 30, 1999 management evaluated its 1999 and 1998 operating results as well as its future tax projections and concluded that it was more likely than not that certain of the deferred tax assets would be realized. Accordingly, the Company has recognized a deferred tax asset of $7.5 million as of September 30, 1999.

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59 Clarendon Road
Watford, Herts WD1 1LA
ENGLAND
Tel: +44-1-923-816393
Fax: +44-1-923-816133

UNITED STATES
CORPORATE HEADQUARTERS
Transaction Systems Architects, Inc.
224 South 108th Avenue
Omaha, NE 68154
Tel: 402-334-5101
Fax: 402-390-8077

ACI Worldwide Inc.
330 South 108th Avenue
Omaha, NE 68154
Tel: 402-390-7600
Fax: 402-330-1528

ACI Worldwide (Florida) Inc.
15950 Bay Vista Drive
Suite 235
Clearwater, FL 33760
Tel: 727-530-1555
Fax: 727-530-7160

Insession, Inc.
Canyonside Office Park
100 Arapahoe Avenue
Suite 5
Boulder, CO 80302
Tel: 303-440-3300
Fax: 303-440-3525

IntraNet, Inc.
One Gateway Center
7th Floor
Newton, MA 02458
Tel: 617-527-7020
Fax: 617-527-6779

ACI Worldwide (Professional Resources) Inc.
10777 Barkley Street
Suite 100
Overland Park, KS 66211
Tel: 913-649-8088
Fax: 913-649-8084

Regency Systems, Inc.
15820 Addison Road
Addison, TX 75001
P.O. Box 809023
Dallas, TX 75380
Tel: 972-934-3066
Fax: 972-387-0839

SDM International, Inc.
134 Spring Avenue
P.O. Box 579
Fuquay-Varina, NC 27526-0579
Tel: 919-552-1100
Fax: 919-552-6116

TRANSACTION SYSTEMS ARCHITECTS, INC.
224 South 108th Avenue
Omaha, Nebraska 68154

INVESTOR INFORMATION

A copy of the Company's Annual Report on Form 10-K for the year ended September 30, 1999, as filed with the Securities and Exchange Commission, will be sent to stockholders free of charge upon written request to:

LeRoy D. Peterson, Director - Investor Relations
Transaction Systems Architects, Inc.
224 South 108th Avenue
Omaha, NE 68154

HOME PAGE: WWW.TSAINC.COM

STOCK INFORMATION

Transaction Systems Architects' common stock is traded on the NASDAQ stock market under the symbol TSAI. There were 358 holders of record of the Company's common stock as of December 31, 1999. The high and low sale prices for the company's common stock for each quarterly period during the fiscal year 1999 and fiscal year 1998, are as follows:

1999	High	Low	1998	High	Low
First Quarter	50	27 1/2	First Quarter	44 1/2	36 5/8
Second Quarter	50 1/2	35 3/4	Second Quarter	43 1/2	34 5/8
Third Quarter	39 3/4	30 7/8	Third Quarter	43	37 1/8
Fourth Quarter	40 1/8	25 9/16	Fourth Quarter	39 7/8	32 3/4

DIVIDENDS

The Company has not declared or paid cash dividends on its common stock since its incorporation.

TRANSFER AGENT

Communications regarding change of address, transfer of stock ownership or lost stock certificates should be directed to:

Norwest Bank Minnesota, N.A.
161 North Concord Exchange
South St. Paul, Minnesota 55075

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 10:00 a.m. on Tuesday, February 22, 2000, at the Company's Corporate Meeting Center, 230 South 108th Avenue, in Omaha, Nebraska.

INDEPENDENT PUBLIC ACCOUNTANTS

Arthur Andersen LLP
1700 Farnam Street
Omaha, Nebraska 68102

The statements in this report regarding future results are preliminary and "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, this report contains other forward-looking statements including statements regarding the Company's expectations, plans and beliefs. The forwarding-looking statements in this report are subject to a variety of risks and uncertainties. Actual results could differ materially. Factors that could cause actual results to differ include but are not limited to the following:

- That the Company will continue to derive a substantial majority of its total revenue from licensing its BASE24 family of software products and providing services and maintenance related to those products. Any reduction in demand for, or increase in competition with respect to, BASE24 products would have a material adverse effect on TSA's financial condition and results of operations.
- That the Company's business is concentrated in the banking industry, making it susceptible to a downturn in that industry.
- Fluctuations in quarterly operating results may result in volatility in TSA's stock price. No assurance can be given that operating results will not vary.
- TSA's stock price may be volatile, in part due to external factors such as announcements by 3rd parties or competitors, inherent volatility in the high-technology sector and changing market conditions in the industry.

For a detailed discussion of these and other risk factors, interested parties should review the Company's filings with the Securities and Exchange Commission, including Exhibit 99.01 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1999.

TSA

Transaction Systems Architects, Inc.

1999 Annual Report

Transaction Smoothware™