

ACI WORLDWIDE, INC.
Form 10-Q
September 25, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

ACI WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

47-0772104

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

120 Broadway, Suite 3350
New York, New York 10271
(Address of principal executive offices,
including zip code)

(646) 348-6700
(Registrant's telephone number,
including area code)

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

As of September 20, 2007, there were 35,764,083 shares of the registrant's common stock outstanding.

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ACI WORLDWIDE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	June 30, 2007 (unaudited)	September 30, 2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 89,965	\$ 110,148
Billed receivables, net of allowances of \$1,709 and \$2,110	73,226	72,439
Accrued receivables	13,777	14,443
Deferred income taxes, net	5,830	9,410
Recoverable income taxes	2,956	
Other current assets	19,486	19,079
Total current assets	205,240	225,519
Property, plant and equipment, net	18,926	14,306
Software, net	33,118	34,294
Goodwill	202,974	191,518
Other intangible assets, net	40,846	42,435
Deferred income taxes, net	15,935	12,294
Other assets	12,543	13,781
TOTAL ASSETS	\$ 529,582	\$ 534,147
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 14,293	\$ 15,090
Accrued employee compensation	26,823	30,089
Deferred revenue	97,105	78,996
Income taxes payable		1,788
Accrued settlement for class action litigation		8,450
Accrued and other current liabilities	17,832	23,174
Total current liabilities	156,053	157,587
Deferred revenue	25,742	20,380
Note payable under credit facility	75,000	75,000
Other noncurrent liabilities	17,480	13,968
Total liabilities	274,275	266,935
Commitments and contingencies (Note 12)		
Stockholders equity		
Preferred stock, \$0.01 par value; 5,000,000 shares authorized; no shares issued and outstanding at June 30, 2007 and September 30, 2006		
Common stock, \$0.005 par value; 70,000,000 shares authorized; 40,821,516 and 40,823,728 shares issued at June 30, 2007 and September 30, 2006, respectively		
	204	204
Treasury stock, at cost, 4,122,513 and 3,561,745 shares outstanding at June 30, 2007 and September 30, 2006, respectively		
	(113,429)	(94,313)
Additional paid-in capital	309,616	307,553
Retained earnings	61,841	62,357
Accumulated other comprehensive loss	(2,925)	(8,589)
Total stockholders equity	255,307	267,212
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 529,582	\$ 534,147

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

ACI WORLDWIDE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

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(unaudited and in thousands, except per share amounts)

	Three Months Ended June 30, 2007		Nine Months Ended June 30, 2007	
		2006 (Restated)		2006 (Restated)
Revenues:				
Software license fees	\$ 40,920	\$ 41,955	\$ 120,629	\$ 133,077
Maintenance fees	31,287	25,989	89,917	76,053
Services	25,902	16,820	70,800	50,542
Total revenues	98,109	84,764	281,346	259,672
Expenses:				
Cost of software license fees	9,932	7,895	31,336	22,335
Cost of maintenance and services	26,789	19,385	74,287	59,332
Research and development	13,422	10,191	37,448	29,921
Selling and marketing	16,894	15,896	51,843	48,437
General and administrative	26,190	15,877	76,374	48,410
Total expenses	93,227	69,244	271,288	208,435
Operating income	4,882	15,520	10,058	51,237
Other income (expense):				
Interest income	940	1,641	2,839	6,154
Interest expense	(1,431)	(10)	(4,488)	(126)
Other, net	(1,533)	(227)	(2,163)	(239)
Total other income (expense)	(2,024)	1,404	(3,812)	5,789
Income before income taxes	2,858	16,924	6,246	57,026
Income tax benefit (provision)	(5,581)	5,605	(6,762)	(4,321)
Net income (loss)	\$ (2,723)	\$ 22,529	\$ (516)	\$ 52,705
Earnings (loss) per share information				
Weighted average shares outstanding				
Basic	37,075	37,529	37,140	37,341
Diluted	37,075	38,476	37,140	38,208
Earnings (loss) per share				
Basic	\$ (0.07)	\$ 0.60	\$ (0.01)	\$ 1.41
Diluted	\$ (0.07)	\$ 0.59	\$ (0.01)	\$ 1.38

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

ACI WORLDWIDE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

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(unaudited and in thousands)

	Nine Months Ended June 30, 2007	2006 (Restated)
Cash flows from operating activities:		
Net income (loss)	\$ (516)	\$ 52,705
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation	4,355	3,035
Amortization	10,878	2,943
Tax expense of intellectual property transfer	1,434	
Amortization of debt financing cost	252	
Gain on transfer of assets under contractual obligation	(404)	
Loss on disposal of assets	67	
Deferred income taxes	(1,168)	(11,598)
Share-based compensation expense	4,794	4,412
Tax benefit of stock options exercised and settled	855	1,456
Changes in operating assets and liabilities, net of acquired balances:		
Billed and accrued receivables, net	4,734	293
Other current assets	(1,145)	(33)
Other assets	(304)	(3,021)
Accounts payable	(3,079)	(3,378)
Accrued employee compensation	(7,521)	(3,855)
Accrued liabilities	2,756	246
Payment of class action litigation settlement	(8,450)	
Current income taxes	(2,061)	12,602
Deferred revenue	18,623	(8,210)
Other current and noncurrent liabilities	2,243	107
Net cash flows from operating activities	26,343	47,704
Cash flows from investing activities:		
Purchases of property and equipment	(6,695)	(3,133)
Purchases of software and distribution rights	(910)	(2,401)
Purchases of marketable securities	(2,500)	(50,937)
Acquisition of businesses, net of cash acquired	(17,487)	(13,139)
Sales of marketable securities		56,038
Proceeds from assets transferred under contractual obligation	500	
Other	6	
Net cash flows from investing activities	(27,086)	(13,572)
Cash flows from financing activities:		
Proceeds from issuance of common stock		909
Proceeds from exercises of stock options	25	11,608
Excess tax benefit of stock options exercised	17	2,321
Purchases of common stock	(19,218)	(24,688)
Payments on debt and capital leases	(2,404)	(2,949)
Other		(15)
Net cash flows from financing activities	(21,580)	(12,814)
Effect of exchange rate fluctuations on cash	2,140	3,354
Net increase (decrease) in cash and cash equivalents	(20,183)	24,672
Cash and cash equivalents, beginning of period	110,148	83,693
Cash and cash equivalents, end of period	\$ 89,965	\$ 108,365
Supplemental cash flow information:		
Income taxes paid (benefit received), net	\$ 11,058	\$ (911)
Interest paid	\$ 2,832	\$ 128

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

1. Consolidated Financial Statements

On July 24, 2007, the stockholders approved the adoption of an Amended and Restated Certificate of Incorporation to change the Company name from Transaction Systems Architects, Inc. to ACI Worldwide, Inc. (the Company). The Company has been marketing its products and services under the ACI Worldwide brand since 1993 and has gained significant market recognition under this brand name. Historically, the Company operated with three business units: ACI Worldwide, Insession Technologies and Intranet Worldwide. In the first quarter of fiscal 2006, the Company restructured its organization combining the products and services within these three business units into one operating unit under the ACI Worldwide name.

The unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The consolidated financial statements at June 30, 2007, and for the three and nine months ended June 30, 2007 and 2006, are unaudited and reflect all adjustments of a normal recurring nature, except as otherwise disclosed herein, which are, in the opinion of management, necessary for a fair presentation, in all material respects, of the financial position and operating results for the interim periods.

The consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2006. The results of operations for the three and nine months ended June 30, 2007 are not necessarily indicative of the results that may be achieved for the entire fiscal year ending September 30, 2007.

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

During the nine months ended June 30, 2007, the Company was conducting an independent review of historical stock option grants, preparing restated historical financial information, and working towards becoming current on its filings with the Securities and Exchange Commission (SEC). In addition to the impact of the stock option matters, the Company restated the financial statements for the three months and nine months ended June 30, 2006 to correct for a deferred tax benefit that was previously recognized in error. The details of the investigation and the conclusions reached by management, including restated historical financial information, are more fully described in the Company's Form 10-K for the year ended September 30, 2006 which was filed with the SEC on May 11, 2007.

Acquisitions

eps Electronic Payment Systems AG

On May 31, 2006, the Company acquired the outstanding shares of eps Electronic Payment Systems AG (eps AG). The aggregate purchase price for eps AG was \$30.4 million, which was comprised of cash payments of \$19.1 million, 330,827 shares of common stock valued at \$11.1 million, and direct costs of the acquisition. eps AG, with operations in Germany, Romania, the United Kingdom and other European locations, offers electronic payment and complementary solutions focused largely in the German market. The acquisition of eps AG occurred in two closings. The initial closing occurred on May 31, 2006, and the second closing occurred on October 31, 2006. Cash consideration paid at the initial closing totaled \$13.0 million, net of \$3.1 million of cash acquired and the remaining cash consideration of \$6.1 million was paid on October 31, 2006. All shares of the Company's common stock issued as consideration for the eps AG acquisition were issued at the initial closing. The Company accounted for the acquisition of eps AG in its entirety as of May 31, 2006, and recorded a liability, included in accrued and other liabilities at September 30, 2006, in the amount of \$6.1 million, for the remaining cash consideration that was paid on October 31, 2006. The Company accounted for this as a delayed delivery of consideration as the price was fixed and not subject to change, with complete decision-making and control of eps AG held by the Company as of the date of the initial closing.

Under the terms of the acquisition, the parties established a cash escrow arrangement in which approximately \$1.0 million of the cash consideration paid at the initial closing was held in escrow as security for a potential contingent obligation. The Company distributed the escrow in October 2006 in accordance with the terms of the escrow arrangement as the contingent liability paid by the Company was recovered from a third party. Additionally, certain of the sellers of eps AG have committed to certain indemnification obligations as part of the sale of eps AG. Those obligations are secured by the shares of common

stock issued to the sellers pursuant to the eps AG acquisition to the degree such shares are restricted at the time such an indemnification obligation is triggered, if at all, the likelihood of which is deemed remote.

The consolidated financial statements as of June 30, 2007 and September 30, 2006 and for the three and nine months ended June 30, 2007 include amounts acquired from, as well as results of operations of, eps AG.

P&H Solutions, Inc.

On August 28, 2006, the Company entered into an Agreement and Plan of Merger with P&H Solutions, Inc. (P&H) under the terms of which P&H became a wholly owned subsidiary of the Company. P&H is a provider of web-based enterprise business banking solutions to financial institutions. The acquisition of P&H closed on September 29, 2006. The aggregate purchase price for P&H, including direct costs of the acquisition, was \$133.7 million, net of \$20.2 million of cash acquired. The purchase price allocation is preliminary and may change due to the finalization of bad debt reserves and escrow settlements.

The consolidated financial statements as of June 30, 2007 and September 30, 2006 and for the three and nine months ended June 30, 2007 include amounts acquired from, as well as results of operations of, P&H.

During the nine months ended June 30, 2007 the Company incurred cash payments of \$10.5 million for P&H acquisition-related compensation.

Visual Web

On February 7, 2007, the Company acquired Visual Web Solutions, Inc. (Visual Web), a provider of international trade finance and web-based cash management solutions, primarily to financial institutions in the Asia/Pacific region. These solutions will complement and be integrated with the Company's U.S.-centric cash management and online banking solutions to create a more complete international offering. Visual Web has wholly owned subsidiaries in Singapore for sales and customer support and in Bangalore, India for product development and services.

The consolidated financial statements as of June 30, 2007 and for the three and nine months then ended include amounts acquired from, as well as the results of operations of, Visual Web from February 7, 2007 forward.

The aggregate purchase price of Visual Web, including direct costs of the acquisition, was \$8.3 million, net of \$1.1 million of cash acquired. Under the terms of the acquisition, the parties established a cash escrow arrangement in which \$1.1 million of the cash consideration paid at closing is held in escrow as security for tax and other contingencies. The allocation of the purchase price to specific assets and liabilities was based, in part, upon outside appraisals of the fair value of certain assets. In connection with the acquisition, the Company recorded the following amounts based upon its preliminary purchase price allocation (in thousands, except weighted-average useful lives):

	Amount	Weighted-Average Useful Lives
Current assets:		
Billed receivables, net of allowances	\$ 801	
Accrued receivables	333	
Other	441	
Noncurrent assets:		
Property and equipment	558	
Developed software	1,339	6.0 years
Goodwill	6,863	
Customer relationships, noncompetes, and other intangible assets	1,241	8.0 years
Total assets acquired	11,576	
Current liabilities		
Long-term liabilities	971	
Total liabilities assumed	3,281	
Net assets acquired	\$ 8,295	
Customer relationships, noncompetes, and other intangible assets		

The finalization of the purchase price allocation may result in certain adjustments to the preliminary amounts including bad debt reserves, tax contingencies and escrow settlements. Factors contributing to the purchase price which resulted in the recognized goodwill (none of which will be tax deductible) include the acquisition of management, sales, and technology personnel with the skills to develop and market new products of the Company. Pro forma results are not presented because they are insignificant.

Stratasoft

On April 2, 2007, the Company acquired Stratasoft Sdn Bhd (Stratasoft), a provider of electronic payment solutions in Malaysia. This acquisition is expected to compliment the Company s strategy to move to a direct sales model in selected markets in Asia.

The consolidated financial statements as of June 30, 2007 and for the three and nine months then ended include amounts acquired from, as well as the results of operations of, Stratasoft from April 2, 2007 forward.

The aggregate purchase price of Stratasoft, including direct costs of the acquisition, was \$2.5 million, net of \$0.7 million of cash acquired. The Company will pay an additional aggregate amount of up to \$1.2 million (subject to foreign currency fluctuations) to the sellers if Stratasoft achieves certain financial targets set forth in the purchase agreement for the periods ending December 31, 2007 and December 31, 2008.

Under the terms of the acquisition, the parties established a cash escrow arrangement in which \$0.5 million of the cash consideration paid at closing is held in escrow as security for tax and other contingencies. The allocation of the purchase price to specific assets and liabilities was based, in part, upon outside appraisals of the fair value of certain assets. In connection with the acquisition, the Company recorded the following amounts based upon its preliminary purchase price allocation (in thousands, except weighted-average useful lives):

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The finalization of the purchase price allocation may result in certain adjustments to the preliminary amount included

	Amount	Weighted-Average Useful Lives
Current assets:		
Billed receivables, net of allowances	\$ 573	
Accrued receivables	10	
Other	396	
Noncurrent assets:		
Property and equipment	57	
Goodwill	712	
Customer relationships and noncompete	1,283	6.9 years
Other	25	
Total assets acquired	3,056	
Current liabilities		
Long-term liabilities	414	
Total liabilities assumed	528	
Net assets acquired	\$ 2,528	
Customer relationships, noncompetes, and other intangible assets		

Prior to the acquisition, Stratasoft had been a distributor of the Company's products within the Malaysian market. Preexisting relationships included trade receivables and payables and certain contracts which were measured at fair value at the acquisition date, resulting in no gain or loss.

The finalization of the purchase price allocation may result in certain adjustments to the preliminary amounts including complete understanding of customer agreements, bad debt reserves, tax contingencies, earn out and escrow settlements. Factors contributing to the purchase price which resulted in the recognized goodwill (none of which will be tax deductible) include the acquisition of management, sales, and technology personnel with the skills to develop and market new products of the Company. Pro forma results are not presented because they are insignificant.

Recent Accounting Standards

Recently Adopted Accounting Standards

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 154, *Accounting Changes and Error Corrections*, which supersedes APB 20, *Accounting Changes*, and SFAS 3, *Reporting Accounting Changes in Interim Financial Statements*, as of October 1, 2006. SFAS No. 154 changes the method for reporting an accounting change. Under SFAS No. 154, accounting changes must be retrospectively applied to all prior periods whose financial statements are presented, unless the change in accounting principle is due to a new pronouncement that provides other transition guidance or unless application of the retrospective method is impracticable. Under the retrospective method, companies will no longer present the cumulative effect of a change in accounting principle in their statement of operations for the period of the change. SFAS No. 154 carries forward unchanged APB 20 s guidance for reporting corrections of errors in previously issued financial statements and for reporting changes in accounting estimates. The adoption of SFAS No. 154 had no impact on the Company s financial statements as there have been no accounting changes or errors during the first nine months of fiscal 2007.

The Company adopted EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* (EITF No. 06-3) as of January 1, 2007. EITF No. 06-3 requires the disclosure of the Company s accounting policy regarding its gross or net presentation of externally imposed taxes on revenue producing transactions in the notes to the consolidated financial statements. No additional disclosures are required since the Company s policy is to present revenues net of any taxes collected from customers.

Recently Issued Accounting Standards

In June 2005, the FASB issued FASB Staff Position No. (FSP) FAS 143-1, *Accounting for Electronic Equipment Waste Obligations*. FSP FAS 143-1 addresses the accounting for obligations associated with Directive 2002/96/EC on Electrical and Electronic Equipment (the Directive) adopted by the European Union (EU). FSP FAS 143-1 is effective the later of the Company s fiscal 2006 or the date that an EU member country in which the Company might have an obligation adopts the Directive. To date, the adoption of FSP FAS 143-1 in those countries which have already adopted the Directive has not had a material effect on the Company s financial position, results of operations or cash flows and the Company does not expect the adoption of FSP FAS 143-1 by countries in the future to have a material effect on its financial position, results of operations or cash flows.

In June 2006, the FASB ratified EITF No. 06-2 *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences* (EITF No. 06-2). EITF No. 06-2 provides guidelines under which sabbatical leave or other similar benefits provided to an employee are considered to accumulate, as defined in FASB Statement 43. If such benefits are deemed to accumulate, then the compensation cost associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period. The provisions of this Issue are effective for fiscal years beginning after December 15, 2006 and allow for either retrospective application or a cumulative effect adjustment to equity upon adoption. The Company does not expect that the adoption of EITF No. 06-2 will have a material effect on its consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48), which establishes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact, if any, that this interpretation will have on its financial condition and/or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS No. 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS No. 157 is effective for the Company s 2009 fiscal year, although early adoption is permitted. The Company is currently assessing the potential effect, if any, of SFAS No. 157 on its consolidated financial statements.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 requires that registrants quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 must be implemented by the end of the Company s fiscal 2007. The Company is currently assessing the potential effect, if any, of SAB 108 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans-an Amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS No. 158). SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize the changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS No. 158 is effective for the Company as of the end of its fiscal 2007. The Company does not expect the adoption of SFAS No. 158 to significantly affect its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS No. 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in earnings. Entities electing the fair value option are required to distinguish, on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. SFAS 159 is effective for the Company s fiscal year 2008. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a

cumulative-effect adjustment to retained earnings as of the date of initial adoption. The Company is currently evaluating the impact, if any, of SFAS 159 on its consolidated financial statements.

2. Revenue Recognition, Accrued Receivables and Deferred Revenue

Software License Fees. The Company recognizes software license fee revenue in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, *Software Revenue Recognition* (SOP 97-2), SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions* (SOP 98-9), and SEC Staff Accounting Bulletin (SAB) 101, *Revenue Recognition in Financial Statements, as codified by SAB 104, Revenue Recognition*. For software license arrangements for which services rendered are not considered essential to the functionality of the software, the Company recognizes revenue upon delivery, provided (1) there is persuasive evidence of an arrangement, (2) collection of the fee is considered probable and (3) the fee is fixed or determinable. In most arrangements, vendor-specific objective evidence (VSOE) of fair value does not exist for the license element; therefore, the Company uses the residual method under SOP 98-9 to determine the amount of revenue to be allocated to the license element. Under SOP 98-9, the fair value of all undelivered elements, such as postcontract customer support (maintenance or PCS) or other products or services, is deferred and subsequently recognized as the products are delivered or the services are performed, with the residual difference between the total arrangement fee and revenues allocated to undelivered elements being allocated to the delivered element.

When a software license arrangement includes services to provide significant modification or customization of software, those services are not separable from the software and are accounted for in accordance with Accounting Research Bulletin (ARB) No. 45, *Long-Term Construction-Type Contracts* (ARB No. 45), and the relevant guidance provided by SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (SOP 81-1). Accounting for services delivered over time (generally in excess of twelve months) under ARB No. 45 and SOP 81-1 is referred to as contract accounting. Under contract accounting, the Company generally uses the percentage-of-completion method. Under the percentage-of-completion method, the Company records revenue for the software license fee and services over the development and implementation period, with the percentage of completion generally measured by the percentage of labor hours incurred to-date to estimated total labor hours for each contract. For those contracts subject to percentage-of-completion contract accounting, estimates of total revenue and profitability under the contract consider amounts due under extended payment terms. In certain cases, the Company provides its customers with extended payment terms whereby payment is deferred beyond when the services are rendered. In other projects, the Company provides its customer with extended payment terms that are refundable in the event certain milestones are not achieved or the project scope changes. The Company excludes revenues due on extended payment terms from its current percentage-of-completion computation until such time that collection of the fees becomes probable. In the event project profitability is assured and estimable within a range, percentage-of-completion revenue recognition is computed using the lowest level of profitability in the range. If the range of profitability is not estimable but some level of profit is assured, revenues are recognized to the extent direct and incremental costs are incurred until such time that project profitability can be estimated. In the event some level of profitability cannot be reasonably assured, completed-contract accounting is applied. If it is determined that a loss will result from the performance of a contract, the entire amount of the loss is recognized in the period in which it is determined that a loss will result.

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

SOP 97-2 requires the seller of software that includes PCS to establish VSOE of fair value of the undelivered element of the contract in order to account separately for the PCS revenue. For certain of the Company's products, VSOE of the fair value of PCS is determined by a consistent pricing of PCS and PCS renewals as a percentage of the software license fees. In other products, the Company determines VSOE by reference to contractual renewals, when the renewal terms are substantive. In those cases where VSOE of the fair value of PCS is determined by reference to contractual renewals, the Company considers factors such as whether the period of the initial PCS term is relatively long when compared to the term of the software license or whether the PCS renewal rate is significantly below the Company's normal pricing practices.

In the absence of customer-specific acceptance provisions, software license arrangements generally grant customers a right of refund or replacement only if the licensed software does not perform in accordance with its published specifications. If the

Company's product history supports an assessment by management that the likelihood of non-acceptance is remote, the Company recognizes revenue when all other criteria of revenue recognition are met.

For those software license arrangements that include customer-specific acceptance provisions, such provisions are generally presumed to be substantive and the Company does not recognize revenue until the earlier of the receipt of a written customer acceptance, objective demonstration that the delivered product meets the customer-specific acceptance criteria or the expiration of the acceptance period. The Company also defers the recognition of revenue on transactions involving less-established or newly released software products that do not have a product history. The Company recognizes revenues on such arrangements upon the earlier of receipt of written acceptance or the first production use of the software by the customer.

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

For software license arrangements in which the Company permits the customer to receive or exchange for unspecified future software products during the software license term, the Company recognizes revenue ratably over the license term, provided all other revenue recognition criteria have been met. For software license arrangements in which the customer has the right to change or alternate its use of currently licensed products, revenue is recognized upon delivery of the first copy of all of the licensed products, provided all other revenue recognition criteria have been met. For software license arrangements in which the customer is charged variable software license fees based on usage of the product, the Company recognizes revenue as usage occurs over the term of the licenses, provided all other revenue recognition criteria have been met.

Certain of the Company's software license arrangements are short-term, time-based license arrangements or include PCS terms that fail to achieve VSOE of fair value due to non-substantive renewal periods. For these arrangements, VSOE of fair value of PCS does not exist and revenues are therefore recognized ratably over the contractually specified PCS term. The Company typically classifies revenues associated with these arrangements in accordance with the contractually specified amounts assigned to the various elements, including software license fees and maintenance fees. The following are amounts included in revenues in the consolidated statements of operations for which VSOE of fair value does not exist for each element (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Software license fees	\$ 2,496	\$ 4,428	\$ 7,115	\$ 12,735
Maintenance fees	1,172	1,441	3,429	4,117
Services	1,084	1,130	3,277	3,417
Total	\$ 4,752	\$ 6,999	\$ 13,821	\$ 20,269

Maintenance Fees. The Company typically enters into multi-year time-based software license arrangements that vary in length but are generally 5 years. These arrangements include an initial (bundled) PCS term of 1 or 2 years with subsequent renewals for additional years within the initial license period. For arrangements in which the Company looks to substantive renewal rates to evidence VSOE of fair value of PCS and in which the PCS renewal rate and term are substantive, VSOE of fair value of PCS is determined by reference to the stated renewal rate. For these arrangements, PCS revenues are recognized ratably over the PCS term specified in the contract. In arrangements where VSOE of fair value of PCS cannot be determined (for example, a time-based software license with a duration of one year or less), the Company recognizes revenue for the entire arrangement ratably over the PCS term.

For those arrangements that meet the criteria to be accounted for under contract accounting, the Company determines whether VSOE of fair value exists for the PCS element. For those situations in which VSOE of fair value exists for the PCS element, PCS is accounted for separately and the balance of the arrangement is accounted for under ARB No. 45 and the relevant guidance provided by SOP 81-1. For those arrangements in which VSOE of fair value does not exist for the PCS element, revenue is recognized to the extent direct and incremental costs are incurred until such time as the services are complete. Once services are complete, all remaining revenue is then recognized ratably over the remaining PCS period.

Services. The Company provides various professional services to customers, primarily project management, software implementation and software modification services. Revenues from arrangements to provide professional services are generally recognized as the related services are performed. For those arrangements in which services revenue is deferred and the Company determines that the costs of services are recoverable, such costs are deferred and subsequently expensed in proportion to the services revenue as it is recognized.

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Hosting. The Company's hosting-related arrangements contain multiple products and services. As these arrangements generally do not contain a contractual right to take possession of the software at anytime during the hosting period without significant penalty, the Company applies the separate provisions of Emerging Issues Task Force (EITF) 00-21, *Revenue Arrangements with Multiple Deliverables*. The Company uses the relative fair value method of revenue recognition to allocate the total consideration derived from the arrangement to each of the elements. Any up-front fees allocated to the hosting services are recognized over the estimated life of the hosting relationship. Professional services revenues are recognized as the services are performed when the services have stand-alone value and over the estimated life of the hosting relationship when the services do not have stand-alone value.

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

Deferred Revenue. Deferred revenue includes (1) amounts currently due and payable from customers, and payments received from customers, for software licenses, maintenance and/or services in advance of providing the product or performing services, (2) amounts deferred whereby VSOE of the fair value of undelivered elements in a bundled arrangement does not exist, and (3) amounts deferred if other conditions for revenue recognition have not been met.

The Company may execute more than one contract or agreement with a single customer. The separate contracts or agreements may be viewed as one multiple-element arrangement or separate agreements for revenue recognition purposes. The Company evaluates the facts and circumstances related to each situation in order to reach appropriate conclusions regarding whether such arrangements are related or separate. The conclusions reached can impact the timing of revenue recognition related to those arrangements.

3. Share-Based Compensation Plans

A summary of stock options as of June 30, 2007 and changes during the nine months then ended is as follows:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at September 30, 2006	3,459,090	\$ 18.24		
Granted	716,496	34.73		
Exercised	(3,543)	7.52		
Cancelled/Forfeited/Expired	(166,476)	18.93		
Outstanding at June 30, 2007	4,005,567	\$ 21.17	7.0	\$ 50,994
Exercisable at June 30, 2007	2,079,595	\$ 14.52	5.5	\$ 39,854

During the first nine months of fiscal 2007, the Company granted 716,496 stock options with a weighted average grant date fair value of \$17.75. The weighted-average grant date fair value of stock options granted during the nine months ended June 30, 2006 was \$14.82. The total intrinsic value of stock options exercised during the first nine months of fiscal 2007 and fiscal 2006 was \$0.1 million and \$11.0 million, respectively. During the first nine months of fiscal 2007, stock option exercises were limited due to the suspension of any such stock option exercises during the period because the Company was not current with its filings with the SEC. During the first nine months of fiscal 2006, the Company issued new shares of common stock for the exercise of stock options. The Company issued treasury shares for the exercise of stock options during the first nine months of fiscal 2007.

The fair value of options granted during the first nine months of fiscal 2007 was estimated on the date of grant using the Black-Scholes option-pricing model, a pricing model acceptable under SFAS No. 123(R), with the following weighted-average assumptions:

	Three Months Ended June 30, 2007	Nine Months Ended June 30, 2007		
Expected life	5.3	5.3		
Interest rate	5.0	%	5.0	%
Volatility	51	%	51	%
Dividend yield				

The fair value of options granted during the first nine months of fiscal 2006 was estimated on the date of grant using the Black-Scholes option-pricing model, a pricing model acceptable under SFAS No. 123(R), with the following weighted-average assumptions:

	Three Months Ended June 30, 2006	Nine Months Ended June 30, 2006		
Expected life	4.5	4.4		
Interest rate	5.0	%	4.7	%
Volatility	42	%	42	%
Dividend yield				

Expected volatilities are based on implied volatilities from traded options on the Company's common stock as well as the Company's historical common stock volatility derived from historical stock price data for historical periods commensurate with the options' expected life. The expected life of options granted represents the period of time that options granted are expected to be outstanding, assuming differing exercise behaviors for stratified employee groupings. The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero coupon issues with a remaining term equal to the expected term at the date of grant of the options. The expected dividend yield is zero as the Company has historically paid no dividends and does not anticipate dividends to be paid in the future.

During the first nine months of fiscal 2007, the Company granted long-term incentive program performance share awards (LTIP Performance Shares) pursuant to the Company's 2005 Equity and Performance Incentive Plan, as amended (the 2005 Incentive Plan) representing 174,947 shares (based on a target of 100%) of the Company's common stock with a weighted-average grant date fair value of \$34.25 per share to various key employees of the Company, using the market price of the Company's common stock at the time of grant as the fair value per share. During the first nine months of fiscal 2006, the Company granted long-term LTIP Performance Shares representing 124,000 shares (based on a target of 100%) of the Company's common stock with a weighted-average grant date fair value of \$29.18 per share to various key employees of the Company, using the market price of the Company's common stock at the time of grant as the fair value per share. A summary of nonvested LTIP Performance Shares as of June 30, 2007 and changes during the nine months then ended is as follows:

Nonvested LTIP Performance Shares	Number of shares at expected attainment	Weighted-Average Grant Date Fair Value
Nonvested at September 30, 2006	219,150	\$ 28.99
Change in expected attainment for fiscal 2006 grants	(29,220)	
Fiscal 2007 awards granted	174,947	34.25
Cancelled/Forfeited/Expired	(13,780)	29.10
Nonvested at June 30, 2007	351,097	\$ 31.61

These LTIP Performance Shares are earned, if at all, based upon the achievement, over a three-year period (the Performance Period), of performance goals related to (i) the compound annual growth over the Performance Period in the Company's 60-month backlog as determined and defined by the Company, (ii) the compound annual growth over the Performance Period in the diluted earnings per share as reported in the Company's consolidated financial statements, and (iii) the compound annual growth over the Performance Period in the total revenues as reported in the Company's consolidated financial statements. In no event will any of the LTIP Performance Shares become earned if the Company's earnings per share is below a predetermined minimum threshold level at the conclusion of the Performance Period. Assuming achievement of the predetermined minimum earnings per

share threshold level, up to 150% of the LTIP Performance Shares may be earned upon achievement of performance goals equal to or exceeding the maximum target levels for compound annual growth over the Performance Period in the Company's 60-month backlog, diluted earnings per share and total revenues. Management must evaluate, on a quarterly basis, the probability that the target performance goals will be achieved, if at all, and the anticipated level of attainment in order to determine the amount of compensation costs to record in the consolidated financial statements.

Management currently believes that an achievement level of 130% will be attained for the awards granted in fiscal 2006 and an achievement level of 100% will be attained for the awards granted in fiscal 2007. During the quarter ended June 30, 2007, management revised the expected attainment for the fiscal 2006 awards from 150% to 130% due to changes in forecasted diluted earnings per share.

As of June 30, 2007, there were unrecognized compensation costs of \$14.7 million related to nonvested stock options and \$5.3 million related to nonvested LTIP Performance Shares which the Company expects to recognize over weighted-average periods of 3.1 years and 1.9 years, respectively.

Share-based compensation expense recognized under SFAS No. 123 (R) in the third quarter of fiscal 2007 related to stock options and LTIP Performance Shares was \$1.4 million, with corresponding tax benefits of \$0.5 million. Share-based compensation expense recognized under SFAS No. 123 (R) in the first nine months of fiscal 2007 related to stock options and LTIP Performance Shares was \$4.8 million, with corresponding tax benefits of \$1.7 million. No share-based compensation costs were capitalized during the third quarter or first nine months of fiscal 2007. Share-based compensation expense related to stock options, LTIP Performance Shares and the ESPP recognized under SFAS No. 123 (R) in the third quarter of fiscal 2006 was \$1.5 million, with corresponding tax benefits of \$0.5 million. Share-based compensation expense related to stock options, LTIP Performance Shares and the ESPP recognized under SFAS No. 123 (R) in the first nine months of fiscal 2006 was \$4.4 million, with corresponding tax benefits of \$1.6 million. Estimated forfeiture rates, stratified by employee classification, have been included as part of the Company's calculations of compensation costs. The Company recognizes compensation costs for stock option awards which vest with the passage of time with only service conditions on a straight-line basis over the requisite service period. There was no expense recognized for the ESPP in the third quarter or first nine months of fiscal 2007 due to the suspension of the plan during the period because the Company was not current with its filings with the SEC.

There were no option exercises during the quarter ended June 30, 2007 due to the suspension of stock option exercises during the period because the Company was not current with its filings with the SEC. Cash received from option exercises for the quarter ended June 30, 2006 was \$4.5 million. Cash received from option exercises for the first nine months of fiscal 2007 and 2006 was \$0.1 million and \$11.6 million, respectively. The actual tax benefit realized for the tax deductions from option exercises was \$1.4 million for the quarter ended June 30, 2006. The actual tax benefit realized for the tax deductions from option exercises totaled \$0.1 million and \$3.7 million for the nine months ended June 30, 2007 and 2006, respectively.

During the first nine months of fiscal 2007, the Company reclassified 503,261 vested options from equity classification to liability classification as these options either cash settled during the nine months ended June 30, 2007 or were expected as of June 30, 2007, to be cash settled in future periods due to the suspension of option exercises because the Company was not current with its filings with the SEC. As a result, the Company recorded compensation expense of \$3.2 million and \$6.9 million in the three and nine months ended June 30, 2007, respectively, which is recorded in general and administrative expense in the accompanying consolidated statement of operations.

4. Marketable Securities

The Company accounts for its investments in marketable securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Company's portfolio consists of securities classified as available-for-sale, which are recorded at fair market values based on quoted market prices. Net unrealized gains and losses on marketable securities (excluding other than temporary losses) are reflected in the consolidated financial statements as a component of accumulated other comprehensive loss. Net realized gains and losses are computed on the basis of average cost and are recognized when realized. Components of the Company's marketable securities portfolio, included in other current assets, at each balance sheet date were as follows (in thousands):

	June 30, 2007	September 30, 2006
Municipal auction rate notes	\$ 2,500	\$

At each balance sheet date, all of the Company's investments in municipal auction rate notes had an AAA rating. Due to the nature of the marketable securities in which the Company invests, the Company does not typically experience significant

movements in the market values of its marketable securities investments. As a result, gross unrealized gains and losses on the Company's investments in marketable securities are insignificant.

5. Goodwill

Changes in the carrying amount of goodwill during the first nine months of fiscal 2007, consisting primarily of additional goodwill related to the acquisitions of P&H, eps AG, Visual Web, and Stratasoft, as well as foreign currency translation adjustments, were as follows (in thousands):

	Total
Balance, September 30, 2006	\$ 191,518
Foreign currency translation adjustments	3,708
Adjustments - acquisition of P&H	112
Adjustments - acquisition of eps AG	61
Additions - acquisition of Visual Web	6,863
Additions - acquisition of Stratasoft	712
Balance, June 30, 2007	\$ 202,974

6. Software and Other Intangible Assets

The carrying amount and accumulated amortization of the Company's software that was subject to amortization at each balance sheet date are as follows (in thousands):

	June 30, 2007	September 30, 2006
Internally-developed software	\$ 13,131	\$ 13,156
Purchased software	78,905	73,863
	92,036	87,019
Less: accumulated amortization	(58,918)	(52,725)
Software, net	\$ 33,118	\$ 34,294

At June 30, 2007, the \$33.1 million software net book value includes the following software purchased through acquisitions which is being marketed for external sale: \$1.8 million of S2 Systems, Inc. purchased software, \$4.2 million of eps AG purchased software, \$19.6 million of P&H purchased software, and \$1.3 million of Visual Web purchased software. The remaining software net book value of \$6.2 million is comprised of various software that has been acquired or developed for internal use. The Company did not capitalize internal software development costs to be marketed for external sale in the first nine months of fiscal 2007 or 2006.

Amortization of acquired software marketed for external sale is computed using the greater of the ratio of current revenues to total current and estimated revenues expected to be derived from the software or the straight-line method over an estimated useful life of generally three to six years. Software amortization expense recorded in the third quarter of fiscal 2007 and 2006 totaled \$2.1 million and \$0.5 million, respectively. Software amortization expense recorded in the first nine months of fiscal 2007 and 2006 totaled \$6.0 million and \$1.5 million, respectively. The majority of these software amortization expense amounts are reflected in either cost of software license fees or general and administrative expenses in the consolidated statements of operations.

The carrying amount and accumulated amortization of the Company's other intangible assets that were subject to amortization at each balance sheet date are as follows (in thousands):

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	June 30, 2007	September 30, 2006
Customer relationships	\$ 40,063	\$ 36,891
Purchased contracts	11,572	11,411
Trademarks and tradenames	2,203	2,152
Covenant not to compete	1,523	1,450
	55,361	51,904
Less: accumulated amortization	(14,515	) (9,469
Other intangible assets, net	\$ 40,846	\$ 42,435

Other intangible assets amortization expense recorded in the third quarter of fiscal 2007 and 2006 totaled \$1.7 million and \$0.5 million, respectively. Other intangible assets amortization expense recorded in the first nine months of fiscal 2007 and 2006 totaled \$4.9 million and \$1.5 million, respectively.

The Company added other intangible assets of \$25.1 million and \$5.7 million, respectively, from the acquisition of P&H and eps AG in fiscal 2006. In fiscal 2007, other intangible assets of \$1.2 million from the acquisition of Visual Web and \$1.3 million from the acquisition of Stratasoft were added. Based on capitalized intangible assets at June 30, 2007, and assuming no impairment of these intangible assets, estimated amortization expense for the remainder of fiscal 2007 and in future fiscal years is as follows (in thousands):

Fiscal Year Ending September 30,	Software Amortization	Other Intangible Assets Amortization
2007 (remainder of fiscal year)	\$ 2,209	\$ 1,597
2008	7,922	6,382
2009	7,399	6,228
2010	6,204	6,158
2011	5,330	6,158
Thereafter	4,054	14,323
Total	\$ 33,118	\$ 40,846

7. Corporate Restructuring and Other Reorganization Charges

During fiscal 2006, the Company restructured its Product and Americas Sales organizations. These actions resulted in severance-related restructuring charges of \$0.9 million during fiscal 2006 and additional severance-related restructuring charges of \$0.3 million during the first nine months of fiscal 2007, which are reflected in operating expenses. The allocation of these charges was as follows: \$0.1 million in selling and marketing, \$0.1 million in general and administrative, and \$0.1 million in research and development. The majority of these charges were in the Americas reportable operating segment. The following table shows activity in the first nine months of fiscal 2007 related to these exit activities (in thousands):

	Termination Benefits
Balance, September 30, 2006	\$ 724
Additional termination charges incurred	307
Adjustments to previously recorded liabilities	(69
Amounts paid during the first nine months of fiscal 2007	) (962
Balance, June 30, 2007) \$

8. Common Stock and Earnings Per Share

Options to purchase shares of the Company's common stock at an exercise price of one cent per share are included in common

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stock for presentation purposes on the June 30, 2007 and September 30, 2006 consolidated balance sheets, and are included in common shares outstanding for earnings per share computations for the three and nine months ended June 30, 2007 and 2006. Included in common stock are 2,212 penny options at September 30, 2006. These penny options were cash settled on May 30, 2007.

In March 2007, the Company's Board of Directors approved an increase of \$100 million to the Company's current repurchase authorization for the purchase of common stock, bringing the total authorization to \$210 million, of which approximately \$117.3 million remains available as of June 30, 2007. As of June 30, 2007, under this plan the Company has purchased approximately 3.3 million shares for approximately \$92.7 million. Purchases are made from time to time as market and business conditions warrant, in open market, negotiated or block transactions, subject to applicable laws, rules and regulations. Subsequent to June 30, 2007 through September 20, 2007, the Company purchased 934,920 shares at an average price of \$27.42 per share.

Earnings per share is computed in accordance with SFAS No. 128, *Earnings per Share*. Basic earnings per share is computed on the basis of weighted average outstanding common shares. Diluted earnings per share is computed on the basis of basic weighted average outstanding common shares adjusted for the dilutive effect of stock options and other outstanding dilutive securities. The following table reconciles the average share amounts used to compute both basic and diluted earnings per share (in thousands):

	Three Months Ended		Nine Months Ended	
	June 30, 2007	2006 (Restated)	June 30, 2007	2006 (Restated)
Weighted average shares outstanding:				
Basic weighted average shares outstanding	37,075	37,529	37,140	37,341
Add: Dilutive effect of stock options, restricted stock awards and other dilutive securities		947		867
Diluted weighted average shares outstanding	37,075	38,476	37,140	38,208

The diluted shares for the three and nine months ended June 30, 2007 exclude incremental weighted average shares of 686,648 and 761,306, respectively related to employee stock options. These shares are excluded due to their antidilutive effect as a result of the Company's net loss during the three and nine months ended June 30, 2007.

Additionally for, the third quarter and first nine months of fiscal 2007, there were 1.2 million stock options outstanding, and 0.4 million LTIP performance shares outstanding for both periods, that were excluded from the computations of diluted earnings per share because the awards were for contingently issuable shares or the exercise prices of the corresponding stock options were greater than the average market value of common stock during the period. For the third quarter and first nine months of fiscal 2006 there were 0.5 million and 0.7 million stock options outstanding, respectively, and 0.2 million and 0.2 million LTIP performance shares outstanding, respectively, that were excluded from the computation.

9. Comprehensive Income (Loss)

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

	Three Months Ended		Nine Months Ended	
	June 30, 2007	2006 (Restated)	June 30, 2007	2006 (Restated)
Net income (loss)	\$ (2,723)	\$ 22,529	\$ (516)	\$ 52,705
Other comprehensive income (loss):				
Foreign currency translation adjustments	2,614	855	5,664	618
Change in unrealized investment holding loss:				
Unrealized holding loss arising during the period		3		6
Comprehensive income (loss)	\$ (109)	\$ 23,387	\$ 5,148	\$ 53,329

Accumulated other comprehensive income (loss) included in the Company's consolidated condensed balance sheets represents the accumulated foreign currency translation adjustment.

10. Segment Information

The Company's chief operating decision maker, together with other senior management personnel, currently focus their review of consolidated financial information and the allocation of resources based on reporting of operating results, including revenues and operating income, for the geographic regions of the Americas, Europe/Middle East/Africa (EMEA) and Asia/Pacific. The Company's products are sold and supported through distribution networks covering these three geographic regions, with each distribution network having its own sales force. The Company supplements its distribution networks with independent reseller and/or distributor arrangements. As such, the Company has concluded that its three geographic regions are its reportable operating segments. The Company's chief operating decision maker reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues and operating income by geographical region.

The following are revenues and operating income for the periods indicated. The prior period amounts for operating income have been reclassified to conform to current period presentation which reflect a change in the allocation of corporate and certain global support costs (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Revenues:				
Americas	\$ 52,253	\$ 47,033	\$ 152,022	\$ 134,562
EMEA	36,548	29,684	102,848	100,704
Asia/Pacific	9,308	8,047	26,476	24,406
	\$ 98,109	\$ 84,764	\$ 281,346	\$ 259,672
Operating income (loss):				
Americas	6,992	14,011	14,887	36,865
EMEA	(3,316)	(467)	(9,392)	8,871
Asia/Pacific	1,206	1,976	4,563	5,501
	\$ 4,882	\$ 15,520	\$ 10,058	\$ 51,237

No single customer accounted for more than 10% of the Company's consolidated revenues during the third quarter or first nine months of fiscal 2007 or 2006. Aggregate revenues attributable to customers in Canada accounted for 14.3% and 14.8% of the Company's consolidated revenues during the third quarter of fiscal 2007 and 2006, respectively, and 10.3% and 10.6% for the first nine months of fiscal 2007 and 2006, respectively. Aggregate revenues attributable to customers in the United Kingdom accounted for 10.8% of the Company's consolidated revenues during the first nine months of fiscal 2006.

Revenues and expenses resulting from the acquisition of P&H are included in the Americas reportable operating segment, while revenues and expenses related to eps AG are primarily included in the EMEA reportable operating segment, for the quarter and nine months ended June 30, 2007. Revenues and expenses related to Visual Web and Stratasoft are primarily included in the Asia/Pacific reportable operating segment for the quarter and nine months ended June 30, 2007.

11. Income Taxes

During the interim periods ended December 31, 2006 and March 31, 2007, the Company estimated an annual effective tax rate for the fiscal year ending September 30, 2007. Calculating the estimated annual effective tax rate requires the Company to estimate annual pre-tax income by tax jurisdiction and annual ordinary income. The annual effective tax rate is revised, if necessary, at the end of each interim period based upon the Company's most current best estimate. During September 2007, the Company revised its estimate of the amount of total income and the allocation of income among tax jurisdictions in which the income is expected to occur for the year ending September 30, 2007. The revised annual effective tax rate was significantly impacted as a result of these changes in the revised projections.

In accordance with FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods, (FIN 18), the Company discontinued the use of an annual effective tax rate and estimated an actual effective tax rate for the year-to-date period ended June 30, 2007. The effective tax rate for the three months ended June 30, 2007 was 195.3%. The significant increase in the effective tax rate for the three months ended June 30, 2007 as compared to the first two interim periods in the year ending September 30, 2007 was primarily the result of losses incurred in foreign jurisdictions where the Company is unable to recognize

a tax benefit and the fixed nature of certain tax charges associated with the transfer of certain intellectual property rights out of the United States as compared to the lower estimated pre-tax income.

The effective tax rate for the third quarter of fiscal 2007 was approximately 195.3% as compared to a benefit of 33.1% for the same period of fiscal 2006. The effective tax rate for the first nine months of fiscal 2007 was approximately 108.3% as compared to 7.6% for the same period of fiscal 2006. The effective tax rates for the third quarter of fiscal 2007 as well as the first nine months of fiscal 2007 were higher than the effective tax rate for the third quarter and first nine months of fiscal 2006 primarily due to the increased losses in foreign jurisdictions where the Company is unable to recognize a tax benefit, the recognition of tax expense associated with the transfer of certain intellectual property rights out of the United States during fiscal 2007 and the release of tax contingency reserves and other accruals related to the conclusion and settlement of a U.S. tax audit in fiscal 2006.

12. Contingencies

Legal Proceedings

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

Class Action Litigation. In November 2002, two class action complaints were filed in the U.S. District Court for the District of Nebraska (the Court) against the Company and certain individuals alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Pursuant to a Court order, the two complaints were consolidated as *Desert Orchid Partners v. Transaction Systems Architects, Inc., et al., with Genesee County Employees Retirement System* designated as lead plaintiff. The Second Amended Consolidated Class Action Complaint previously alleged that during the purported class period, the Company and the named defendants misrepresented the Company's historical financial condition, results of operations and its future prospects, and failed to disclose facts that could have indicated an impending decline in the Company's revenues. That Complaint also alleged that, prior to August 2002, the purported truth regarding the Company's financial condition had not been disclosed to the market. The Company and the individual defendants initially filed a motion to dismiss the lawsuit. In response, on December 15, 2003, the Court dismissed, without prejudice, Gregory Derkach, the Company's former president and chief executive officer, as a defendant, but denied the motion to dismiss with respect to the remaining defendants, including the Company.

On July 1, 2004, lead plaintiff filed a motion for class certification wherein, for the first time, lead plaintiff sought to add an additional class representative, Roger M. Wally. On August 20, 2004, defendants filed their opposition to the motion. On March 22, 2005, the Court issued an order certifying the class of persons that purchased the Company's common stock from January 21, 1999 through November 18, 2002.

On January 27, 2006, the Company and the individual defendants filed a motion for judgment on the pleadings, seeking a dismissal of the lead plaintiff and certain other class members, as well as a limitation on damages based upon plaintiffs' inability to establish loss causation with respect to a large portion of their claims. On February 6, 2006, additional class representative Roger M. Wally filed a motion to withdraw as a class representative and class member. On April 21, 2006, and based upon the pending motion for judgment, a motion to intervene as a class representative was filed by the Louisiana District Attorneys Retirement System (LDARS). LDARS previously attempted to be named as lead plaintiff in the case. On July 5, 2006, the Magistrate denied LDARS' motion to intervene, which LDARS appealed to the District Judge.

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

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

The settlement was approved by the Court on March 2, 2007 and the Court ordered the case dismissed with prejudice against the Company and the individual defendants.

On March 27, 2007, James J. Hayes, a class member, filed a notice of appeal with the United States Court of Appeals for the Eighth Circuit appealing the Court's order. The Company responded to this appeal in accordance with the Court of Appeals' orders and procedures. The appeal has not yet been decided.

Derivative Litigation. On May 16, 2007, Thomas J. Lieven filed a purported stockholder derivative action in the United States District Court for the Southern District of New York. The lawsuit names certain former and current officers, all of the current directors and certain former directors as individual defendants. The Company is named as a nominal defendant. The plaintiff makes allegations related to the Company's historical stock option granting practices, and asserts claims on behalf of the Company against the individual defendants under Section 14(a) of the Securities Exchange Act of 1934 and Rule 14a-9, as well as state law claims for breach of fiduciary duties, abuse of control, gross mismanagement, constructive fraud, waste of corporate assets and unjust enrichment. The plaintiff has informed the court and the defendants that he intends to amend his originally filed complaint. Once filed, the defendants intend to respond to the amended complaint.

13. Assets of Business Transferred Under Contractual Arrangement

On September 29, 2006, the Company entered into an agreement whereby certain assets and liabilities related to the Company's MessagingDirect business and WorkPoint product line were conveyed to an unrelated party for a total selling price of \$3.0 million. Net assets with a book value of \$0.1 million were transferred under the agreement. At September 30, 2006, the Company had \$1.3 million of assets related to this transfer recorded in other current assets, and \$1.2 million of liabilities recorded in other current liabilities.

An initial payment of \$0.5 million was paid to the Company on October 2, 2006. The remaining \$2.5 million is to be paid in installments through 2010. In accordance with the terms of the Asset Purchase Agreement, the Company has certain obligations to fulfill on behalf of the buyer. Among other things, the Company is obligated to provide continuing support for certain customers of the aforementioned product lines by furnishing a certain level of staffing to provide the support as well as administrative services for a period after the transaction. The Company will be reimbursed for such services at a rate equal to cost plus five percent. Additionally, the Company will remain a reseller of these products for a royalty fee of 50% of revenues generated from sales. The Company signed a termination agreement for the Edmonton, Canada office lease and all further obligations effective June 30, 2007.

Based on the continuing relationship and involvement subsequent to the closing date, uncertainty regarding collectability of the note receivable, as well as the level of financing provided by the Company, the assets and liabilities to be divested were classified in other current assets and accrued and other current liabilities within the Company's consolidated balance sheet at September 30, 2006. During the first quarter of fiscal 2007, the Company collected \$0.5 million. As a result, the net assets have been written down to zero and the Company recognized a pretax gain in the first quarter of fiscal 2007 of \$0.4 million which is recorded in other income (expense) in the accompanying consolidated statement of operations for the nine months ended June 30, 2007. The Company will recognize gains in future periods as the remaining \$2.5 million of payments are received.

14. Leases

The Company entered a new software license agreement effective May 31, 2007, payable in 10 quarterly installments. Software assets at June 30, 2007 include \$2.6 million for the cost of this license and associated accumulated amortization of \$0.1 million. Future minimum payments related to this agreement at June 30, 2007 are (in thousands):

Fiscal year ending September 30,	
2007	\$ 564
2008	1,085
2009	1,085
Total minimum lease payments	2,734
Amount representing interest	178
Present value of minimum lease payments	\$ 2,556

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In connection with the license, the Company will also incur annual maintenance expense of \$1.0 million through November 2009.

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15. Subsequent Events

Subsequent to June 30, 2007, the Company has incurred cash outlays of approximately \$5.7 million for the cash settlement of vested options that optionees were unable to exercise due to the suspension of option exercises during the period for which the Company was not current with its filings with the SEC and which would otherwise have expired.

Subsequent to June 30, 2007, the Company entered into an amendment to its credit agreement with Wachovia Bank which amended the definition of consolidated EBITDA, as it relates to the calculation for the Company's debt covenants, to exclude certain non-recurring items, and to incorporate the change in the Company's fiscal year end to a calendar year, effective January 1, 2008.

On July 18, 2007 the Company entered into an interest rate swap with a commercial bank whereby the Company pays a fixed rate of 5.375% and receives a floating rate indexed to the 3-month LIBOR (5.36% at inception) from the counterparty on a notional amount of \$75 million. The swap effective date was July 20, 2007 and terminates on October 4, 2010. The variable rate re-prices quarterly.

On August 16, 2007 the Company entered into an interest rate swap with a commercial bank whereby the Company pays a fixed rate of 4.90% and receives a floating rate indexed to the 3-month LIBOR from the counterparty on a notional amount of \$50 million. The swap effective date is October 4, 2007 and terminates on October 4, 2010. The variable rate will be first determined on the effective date and will re-price quarterly.

On July 24, 2007, the stockholders of the Company approved the adoption of an Amended and Restated Certificate of Incorporation to change the Company name from Transaction Systems Architects, Inc. to ACI Worldwide, Inc. The Company has been marketing its products and services under the ACI Worldwide brand since 1993 and has gained significant market recognition under this brand name.

On July 24, 2007, the stockholders of the Company approved the First Amendment to the 2005 Incentive Plan which increased the number of shares authorized for issuance under the plan from 3,000,000 to 5,000,000 and contained certain other amendments.

On September 6, 2007, the Company expanded the Board of Directors to seven members and appointed Alfred R. Berkeley, III, Chairman and CEO of Pipeline Trading Systems LCC, and Jan H. Suwinski, a professor of business operations at the Samuel Curtis Johnson Graduate School of Management at Cornell University, to serve as directors of the Company.

Subsequent to June 30, 2007, the Company committed to actions to reduce headcount by a total of approximately 50 employees. In connection with these actions, the Company estimates that it will incur \$3.3 million to \$4.3 million of cash severance costs. The majority of these severance costs are expected to be incurred during the Company's fourth quarter of fiscal year 2007, with the remainder to be incurred by the end of December 2007. These costs are in addition to approximately \$3.2 million of severance related charges recorded during the nine-month period ended June 30, 2007.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

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This report contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Generally, forward-looking statements do not relate strictly to historical or current facts, and include words or phrases such as management anticipates, we believe, we anticipate, we expect, we plan, we will, we are well positioned, and words and phrases of similar impact, and include, but are not limited to, statements regarding future operations, business strategy, business environment and key trends, as well as statements related to expected financial and other benefits from our acquisition of eps Electronic Payment Systems AG, P&H Solutions, Inc., Visual Web Solutions, Inc., and Stratasoft Sdn. Bhd and those related to our organizational restructuring activities. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any or all of the forward-looking statements in this document may turn out to be incorrect. They may be based on inaccurate assumptions or may not account for known or unknown risks and uncertainties. Consequently, no forward-looking statement is guaranteed, and our actual future results may vary materially from the results expressed or implied in our forward-looking statements. The cautionary statements in this report expressly qualify all of our forward-looking statements. In addition, we are not obligated, and do not intend, to update any of our forward-looking statements at any time unless an update is required by applicable securities laws. Factors that could cause actual results to differ from those expressed or implied in the forward-looking statements include, but are not limited to, those discussed in Part III Item 1A in the section entitled Risk Factors Factors That May Affect Our Future Results or The Market Price of Our Common Stock and those discussed in Part I Item 1A in the section entitled Risk Factors Factors That May Affect Our Future Results or the Market Price of Our Common Stock in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

The following discussion should be read together with our financial statements and related notes contained in this report and with the financial statements and related notes and Management's Discussion & Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006. Results for the quarter and nine months ended June 30, 2007 are not necessarily indicative of results that may be attained in the future.

Overview

We develop, market, install and support a broad line of software products and services primarily focused on facilitating electronic payments. In addition to our own products, we distribute, or act as a sales agent for, software developed by third parties. Our products are sold and supported through distribution networks covering three geographic regions the Americas, EMEA and Asia/Pacific. Each distribution network has its own sales force and supplements this with independent reseller and/or distributor networks. Our products and services are used principally by financial institutions, retailers and electronic payment processors, both in domestic and international markets. Accordingly, our business and operating results are influenced by trends such as information technology spending levels, the growth rate of the electronic payments industry, mandated regulatory changes, and changes in the number and type of customers in the financial services industry. Our products are marketed under the ACI Worldwide brand.

We derive a majority of our revenues from non-domestic operations and believe our greatest opportunities for growth exist largely in international markets. Refining our global infrastructure is a critical component of driving our growth. We have launched a globalization strategy which includes elements intended to streamline our supply chain and provide low-cost centers of expertise to support a growing international customer base. In fiscal 2006, we established a new subsidiary in Ireland to serve as the focal point for certain international product development and commercialization efforts. This subsidiary will oversee remote software development operations in Romania and elsewhere, as well as manage certain of our intellectual property rights. We are also seeking to take a direct selling and support strategy in certain countries where historically we have used third-party distributors to represent our products, in an effort to develop closer relationships with our customers and develop a stronger overall position in those countries. We also moved our principal executive offices to New York City in September 2006 to manage our global infrastructure more strategically.

We have launched a service called ACI On Demand, wherein we will host our payment systems and sell them as a service to banks, retailers and processors.

During the nine months ended June 30, 2007, we were conducting an independent review of historical stock option grants, preparing restated historical financial information, and working towards becoming current on our filings with the Securities and Exchange Commission (SEC). The details of the investigation and the conclusions reached by management, including

restated historical financial information, are more fully described in our Form 10-K for the fiscal year ended September 30, 2006 which was filed with SEC on May 11, 2007. As a result of the historic stock option review and the delay in filing our Form 10-K for the fiscal year ended September 30, 2006, we were not current with our SEC reporting obligations from the period commencing with the regulatory filing date of the Form 10-K until the filing of this quarterly report on Form 10-Q.

On July 24, 2007, our stockholders approved the adoption of an Amended and Restated Certificate of Incorporation to change our name from Transaction Systems Architects, Inc. to ACI Worldwide, Inc. We have been marketing our products and services under the ACI Worldwide brand since 1993 and have gained significant market recognition under this brand name. Historically, we operated with three business units: ACI Worldwide, Insession Technologies and Intranet Worldwide. In the first quarter of fiscal 2006, we restructured our organization combining the products and services within these three business units into one operating unit under the ACI Worldwide name.

Key trends that currently impact our strategies and operations include:

- **Increasing electronic payment transaction volumes.** Electronic payment volumes continue to increase around the world, taking market share from traditional cash and check transactions. We commissioned an independent industry study that determined that electronic payment volumes are expected to grow at approximately 13% per year for the next five years, with varying growth rates based on the type of payment and part of the world. We leverage the growth in transaction volumes through the licensing of new systems to customers whose older systems cannot handle increased volume and through the licensing of capacity upgrades to existing customers.
- **Increasing competition.** The electronic payments market is highly competitive and subject to rapid change. Our competition comes from in-house information technology departments, third-party electronic payment processors and third-party software companies located both within and outside of the United States. Many of these companies are significantly larger than us and have significantly greater financial, technical and marketing resources. As electronic payment transaction volumes increase, third-party processors tend to provide competition to our solutions, particularly among customers that do not seek to differentiate their electronic payment offerings. As consolidation in the financial services industry continues, we anticipate that competition for those customers will intensify.
- **Aging payments software.** In many markets, electronic payments are processed using software developed by internal information technology departments, much of which was originally developed over ten years ago. Increasing transaction volumes, industry mandates and the overall costs of supporting these older technologies often serve to make these older systems obsolete, creating opportunities for us to replace this aging software with newer and more advanced products.
- **Adoption of open systems technology.** In an effort to leverage lower-cost computing technologies and current technology staffing and resources, many financial institutions, retailers and electronic payment processors are seeking to transition their systems from proprietary technologies to open technologies such as Windows, UNIX and Linux. Our continued investment in open systems technologies is, in part, designed to address this demand.
- **Electronic payments fraud and compliance.** As electronic payment transaction volumes increase, criminal elements continue to find ways to commit a growing volume of fraudulent transactions using a wide range of techniques. Financial institutions, retailers and electronic payment processors continue to seek ways to leverage new technologies to identify and prevent fraudulent transactions. Due to concerns with international terrorism and money laundering, financial institutions in particular are being faced with increasing scrutiny and regulatory pressures. We continue to see opportunity to offer our fraud detection solutions to help customers manage the growing levels of electronic payment fraud and compliance activity.
- **Adoption of smartcard technology.** In many markets, card issuers are being required to issue new cards with embedded chip technology. Chip-based cards are more secure, harder to copy and offer the opportunity for multiple functions on one card (e.g. debit, credit, electronic purse, identification, health records, etc.). The Europay/Mastercard/Visa (EMV) standard for issuing and processing debit and credit card transactions has emerged

as the global standard, with many regions throughout the world working on EMV rollouts. The primary benefit of EMV deployment is a reduction in electronic payment fraud, with the additional benefit that the core infrastructure necessary for multi-function chip cards is being put in place (e.g. chip card readers in ATM s and POS devices). We are working with many customers around the world to facilitate EMV deployments, leveraging several of our solutions.

- **Single Euro Payments Area (SEPA) and Faster Payments Mandates.** The SEPA and Faster Payment initiatives,

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primarily focused on the European Economic Community and the United Kingdom, are designed to facilitate lower costs for cross-border payments and facilitate reduced timeframes for settling electronic payment transactions. Our retail and wholesale banking solutions provide key functions that help financial institutions address these mandated regulations.

- **Financial institution consolidation.** Consolidation continues on a national and international basis, as financial institutions seek to add market share and increase overall efficiency. There are several potential negative effects of increased consolidation activity. Continuing consolidation of financial institutions may result in a lower number of existing and potential customers for our products and services. Consolidation of two of our customers could result in reduced revenues if the combined entity were to negotiate greater volume discounts or discontinue use of certain of our products. Additionally, if a non-customer and a customer combine and the combined entity in turn decide to forego future use of our products, our revenue would decline. Conversely, we could benefit from the combination of a non-customer and a customer when the combined entity continues use of our products and, as a larger combined entity, increases its demand for our products and services. We tend to focus on larger financial institutions as customers, often resulting in our solutions being the solutions that survive in the consolidated entity.
- **Electronic payments convergence.** As electronic payment volumes grow and pressures to lower overall cost per transaction increase, financial institutions are seeking methods to consolidate their payment processing across the enterprise. We believe that the strategy of using service-oriented-architectures to allow for re-use of common electronic payment functions such as authentication, authorization, routing and settlement will become more common. Using these techniques, financial institutions will be able to reduce costs, increase overall service levels, enable one-to-one marketing in multiple bank channels and manage enterprise risk. Our reorganization was, in part, focused on this trend, by facilitating the delivery of integrated payment functions that can be re-used by multiple bank channels, across both the consumer and wholesale bank. While this trend presents an opportunity for us, it may also expand the competition from third-party electronic payment technology and service providers specializing in other forms of electronic payments. Many of these providers are larger than us and have significantly greater financial, technical and marketing resources.

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

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

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

Subsequent Events

Subsequent to June 30, 2007, the Company has incurred cash outlays of approximately \$5.7 million for the cash settlement of vested options that optionees were unable to exercise due to the suspension of option exercises during the period for which the Company was not current with its filings with the SEC and which would otherwise have expired.

Subsequent to June 30, 2007, the Company entered into an amendment to its credit agreement with Wachovia Bank which amended the definition of consolidated EBITDA, as it relates to the calculation for the Company's debt covenants, to exclude certain non-recurring items, and to incorporate the change in the Company's fiscal year end to a calendar year, effective January 1, 2008.

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On July 18, 2007 the Company entered into an interest rate swap with a commercial bank whereby the Company pays a fixed rate of 5.375% and receives a floating rate indexed to the 3-month LIBOR (5.36% at inception) from the counterparty on a notional amount of \$75 million. The swap effective date was July 20, 2007 and terminates on October 4, 2010. The variable rate re-prices quarterly.

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On July 24, 2007, the stockholders of the Company approved the adoption of an Amended and Restated Certificate of Incorporation to change the Company name from Transaction Systems Architects, Inc. to ACI Worldwide, Inc. The Company has been marketing its products and services under the ACI Worldwide brand since 1993 and has gained significant market recognition under this brand name.

On July 24, 2007, the stockholders of the Company approved the First Amendment to the 2005 Incentive Plan which increased the number of shares authorized for issuance under the plan from 3,000,000 to 5,000,000 and contained certain other amendments.

On September 6, 2007, the Company expanded the Board of Directors to seven members and appointed Alfred R. Berkeley, III, Chairman and CEO of Pipeline Trading Systems LCC, and Jan H. Suwinski, a professor of business operations at the Samuel Curtis Johnson Graduate School of Management at Cornell University, to serve as directors of the Company.

Subsequent to June 30, 2007, the Company committed to actions to reduce headcount by a total of approximately 50 employees. In connection with these actions, the Company estimates that it will incur \$3.3 million to \$4.3 million of cash severance costs. The majority of these severance costs are expected to be incurred during the Company's fourth quarter of fiscal year 2007, with the remainder to be incurred by the end of December 2007. These costs are in addition to approximately \$3.2 million of severance related charges recorded during the nine-month period ended June 30, 2007.

Acquisitions

On May 31, 2006, we acquired eps Electronic Payment Systems AG (eps AG), headquartered in Frankfurt, Germany. eps AG, with operations in Germany, Romania, the United Kingdom and other European locations, offers electronic payment and complementary solutions focused largely in the German market. The acquisition of eps AG will provide us additional opportunities to sell our value added solutions, such as Proactive Risk Manager and Smart Chip Manager, into the German marketplace, as well as to sell eps AG's testing and dispute management solutions into markets beyond Germany. In addition, eps AG's presence in Romania will help us more rapidly develop our global offshore development and support capabilities.

On September 29, 2006, we completed the acquisition of P&H Solutions, Inc. (P&H). P&H is a leading provider of enterprise business banking solutions and complements our existing business. The acquisition of P&H will extend our wholesale payments solutions suite, provide us with an Application Software Provider (ASP)-based offering and allow us to distribute P&H's solutions into international markets through our global distribution channel.

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

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

Backlog

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

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

- Maintenance fees are assumed to exist for the duration of the license term for those contracts in which the committed maintenance term is less than the committed license term.
- License and processing services arrangements are assumed to renew at the end of their committed term at a rate consistent with our historical experiences.
- Non-recurring license arrangements are assumed to renew as recurring revenue streams.
- Foreign currency exchange rates are assumed to remain constant over the 60-month backlog period for those contracts stated in currencies other than the U.S. dollar.
- Our pricing policies and practices are assumed to remain constant over the 60-month backlog period.

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

- Anticipated increases in transaction volumes in customer systems.
- Optional annual uplifts or inflationary increases in recurring fees.
- Services engagements, other than processing services, are not assumed to renew over the 60-month backlog period.
- The potential impact of merger activity within our markets and/or customers is not reflected in the computation of 60-month backlog.

The following table sets forth our 60-month backlog estimate, by geographic region, as of June 30, 2007, March 31, 2007, December 31, 2006, and September 30, 2006 (in millions):

	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006
Americas	\$ 653	\$ 643	\$ 644	\$ 671
EMEA	485	474	444	433
Asia/Pacific	132	127	125	122
	\$ 1,270	\$ 1,244	\$ 1,213	\$ 1,226

We also estimate 12-month backlog, segregated between monthly recurring and non-recurring revenues, using a methodology consistent with the 60-month estimate. Monthly recurring revenues include all monthly license fees, maintenance fees and processing services fees. Non-recurring revenues include other software license fees and services. Amounts included in 12-month backlog estimates assume renewal of one-time license fees on a monthly fee basis if such renewal is expected to occur in the next 12 months. The following table sets forth our 12-month backlog estimate, by geographic region, as of June 30, 2007, March 31, 2007, December 31, 2006, and September 30, 2006 (in millions):

June 30, 2007

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	Monthly Recurring	Non- Recurring	Total
Americas	\$ 121	\$ 35	\$ 156
EMEA	70	57	127
Asia/Pacific	25	8	33
	\$ 216	\$ 100	\$ 316

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	March 31, 2007		
	Monthly Recurring	Non- Recurring	Total
Americas	\$ 122	\$ 35	\$ 157
EMEA	68	53	121
Asia/Pacific	24	5	29
	\$ 214	\$ 93	\$ 307

	December 31, 2006		
	Monthly Recurring	Non- Recurring	Total
Americas	\$ 122	\$ 36	\$ 158
EMEA	68	38	106
Asia/Pacific	24	5	29
	\$ 214	\$ 79	\$ 293

	September 30, 2006		
	Monthly Recurring	Non- Recurring	Total
Americas	\$ 122	\$ 32	\$ 154
EMEA	67	39	106
Asia/Pacific	23	6	29
	\$ 212	\$ 77	\$ 289

Estimates of future financial results are inherently unreliable. Our backlog estimates require substantial judgment and are based on a number of assumptions as described above. These assumptions may turn out to be inaccurate or wrong, including for reasons outside of management's control. For example, our customers may attempt to renegotiate or terminate their contracts for a number of reasons, including mergers, changes in their financial condition, or general changes in economic conditions in the customer's industry or geographic location, or we may experience delays in the development or delivery of products or services specified in customer contracts which may cause the actual renewal rates and amounts to differ from historical experiences. Changes in foreign currency exchange rates may also impact the amount of revenue actually recognized in future periods. Accordingly, there can be no assurance that contracts included in backlog estimates will actually generate the specified revenues or that the actual revenues will be generated within the corresponding 12-month or 60-month period. Additionally, because backlog estimates are operating metrics, the estimates are not subject to the same level of internal review or controls as a GAAP financial measure.

RESULTS OF OPERATIONS*Third Quarter of Fiscal 2007 vs. Third Quarter of Fiscal 2006*

The following table presents the consolidated statements of operations as well as the percentage relationship to total revenues of items included in our Consolidated Statements of Operations (amounts in thousands):

	Three Months Ended June 30,			Three Months Ended June 30,				
	2007	2006	% Change	2007	2006			
	(Restated)			As a % of total revenues (Restated)				
Revenues:								
Initial license fees (ILFs)	\$ 25,379	\$ 24,222	4.8	% 25.9	%	28.6	%	
Monthly license fees (MLFs)	15,541	17,733	(12.4)	)%	15.8	%	20.9	%
Software license fees	40,920	41,955	(2.5)	)%	41.7	%	49.5	%
Maintenance fees	31,287	25,989	20.4	%	31.9	%	30.7	%
Services	25,902	16,820	54.0	%	26.4	%	19.8	%
Total revenues	98,109	84,764	15.7	%	100.0	%	100.0	%
Expenses:								
Cost of software license fees	9,932	7,895	25.8	%	10.1	%	9.3	%
Cost of maintenance and services	26,789	19,385	38.2	%	27.3	%	22.9	%
Research and development	13,422	10,191	31.7	%	13.7	%	12.0	%
Selling and marketing	16,894	15,896	6.3	%	17.2	%	18.8	%
General and administrative	26,190	15,877	65.0	%	26.7	%	18.7	%
Total expenses	93,227	69,244	34.6	%	95.0	%	81.7	%
Operating income	4,882	15,520	(68.5)	)%	5.0	%	18.3	%
Other income (expense):								
Interest income	940	1,641	(42.7)	)%	1.0	%	1.9	%
Interest expense	(1,431)	(10)	#	(1.5)	)%	(0.0))%	
Other, net	(1,533)	(227)	#	(1.6)	)%	(0.3))%	
Total other income (expense)	(2,024)	1,404	#	(2.1)	)%	1.7	%	
Income (loss) before income taxes	2,858	16,924	(83.1)	)%	2.9	%	20.0	%
Income tax (benefit) provision	(5,581)	5,605	#	(5.7)	)%	6.6	%	
Net income (loss)	\$ (2,723)	\$ 22,529	#	(2.8)	)%	26.6	%	

- Denotes a variance of more than 100%.

The sum of the amounts and percentages may not equal the totals for the period due to the effects of rounding.

Revenues

Total revenues for the third quarter of fiscal 2007 increased \$13.3 million, or 15.7%, as compared to the corresponding period of fiscal 2006. Included in the third quarter of fiscal 2007 and fiscal 2006 was approximately \$13.4 million and \$0.4 million, respectively, of revenue related to acquired businesses. Excluding the impact of the acquired businesses, total revenues increased primarily as a result of a \$1.9 million, or 7.2% increase in maintenance fee revenues, and a \$1.2 million, or 7.3%, increase in services revenues offset by a \$2.8 million, or 6.6%, decrease in software license fee revenues. .

The decrease in software license fee revenues, excluding the impact of acquired businesses, during the third quarter of fiscal 2007, as compared to the corresponding period of fiscal 2006 is attributable to a decline in monthly license fees, which was

impacted by the mix of sales in the quarter primarily in the Americas reportable operating segment.

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The increase in maintenance fee revenues, excluding the impact of acquired businesses, during the third quarter of fiscal 2007, as compared to the corresponding period of fiscal 2006, is primarily the result of an increase in the overall installed base in the EMEA reportable operating segment, and, to a lesser extent, in the Asia-Pacific reportable operating segment.

The increase in services revenues, excluding the impact of acquired businesses, for the third quarter of fiscal 2007, as compared to the third quarter of fiscal 2006, resulted primarily from increased activity in the EMEA reportable operating segment, specifically relating to customer transactions in the United Kingdom and the Netherlands. Services revenue was also positively impacted by a \$0.5 million increase in project-related expense reimbursed by customers during the quarter.

Expenses

Total operating expenses for the third quarter of fiscal 2007 increased \$24.0 million, or 34.6%, as compared to the same period of fiscal 2006. Included in the third quarter of fiscal 2007 and fiscal 2006 was approximately \$15.8 million and \$1.0 million, respectively, of operating expenses related to acquired businesses. Additionally, there were approximately \$4.7 million of costs incurred in the third quarter of fiscal 2007 related to the historical stock option review, preparation of restated historical financial information, cash settlement of vested options, and efforts to become current with our filings with the SEC.

Excluding the impact of the acquired businesses, total expenses increased primarily as a result of a \$7.8 million, or 49.7%, increase in general and administrative costs, a \$3.0 million, or 15.7%, increase in maintenance and services costs, partially offset by a \$0.5 million, or 6.5%, decrease in the cost of software license fees, and a \$0.8 million, or 5.3%, decrease in selling and marketing costs. Research and development (R&D) costs decreased \$0.3 million or 2.7% when compared to the same period of fiscal 2006.

The decrease in the cost of software license fees for the third quarter of fiscal 2007, as compared to the corresponding period of fiscal 2006, excluding the impact of the acquired businesses, was a direct result of a change in product mix in the Americas operating segment and a decrease in fees incurred related to consulting fees.

Cost of maintenance and services for the third quarter of fiscal 2007 increased as compared to the corresponding period of fiscal 2006, excluding the impact of the acquired businesses, primarily as a result of an increase in headcount due to an increased focus on service activities. In the EMEA reportable operating segment, increased services revenue recognition during the quarter also led to a significant release of deferred expenses into the current quarter.

R&D costs for the third quarter of fiscal 2007 decreased slightly as compared to the corresponding period of fiscal 2006, excluding the impact of the acquired businesses, resulting from decreased headcount as a result of more of an emphasis on service activities versus development activities partially offset by expenses incurred related to the transition of R&D activities to low cost countries.

The decrease in selling and marketing costs for the third quarter of fiscal 2007 as compared to the corresponding period of fiscal 2006, excluding the impact of the acquired businesses, was a result of sales productivity initiatives and a decrease in advertising and promotion costs due to the timing of certain marketing events and trade shows. This was partially offset by an increase in travel and entertainment expenses related to customer projects.

Approximately \$4.7 million of the increase in general and administrative costs during the third quarter of fiscal 2007, as compared to the same period of fiscal 2006, excluding the impact of the acquired businesses, was due to expenses incurred related to the historical stock option review, preparation of restated historical financial information, cash settlement of vested options, and efforts to become current with our filings with the SEC. The remaining increase is the result of severance-related charges of \$2.2 million, infrastructure investment of \$0.7 million, and an increase in depreciation and amortization expense of \$0.5 million.

Other Income and Expense

Interest income for the third quarter of fiscal 2007 decreased \$0.7 million, or 42.7%, as compared to the corresponding period of fiscal 2006. The primary reason for the decrease in interest income is due to a decrease in interest bearing assets in the third quarter of fiscal 2007 as compared to the corresponding period of fiscal 2006, due to acquisitions activity and share repurchase programs.

Interest expense for the third quarter of fiscal 2007 increased \$1.4 million as compared to the same period of fiscal 2006. The increase is attributable to \$75 million of borrowings under the revolving credit facility used to fund the purchase of P&H in the

fourth quarter of fiscal 2006.

Other income and expense consists of foreign currency gains and losses and other non-operating items.

Income Taxes

During the interim periods ended December 31, 2006 and March 31, 2007, the Company estimated an annual effective tax rate for the fiscal year ending September 30, 2007. Calculating the estimated annual effective tax rate requires the Company to estimate annual pre-tax income by tax jurisdiction and annual ordinary income. The annual effective tax rate is revised, if necessary, at the end of each interim period based upon the Company's most current best estimate. During September 2007, the Company revised its estimate of the amount of total income and the allocation of income among tax jurisdictions in which the income is expected to occur for the year ending September 30, 2007. The revised annual effective tax rate was significantly impacted as a result of these changes in the revised projections.

In accordance with FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods, (FIN 18), the Company discontinued the use of an annual effective tax rate and estimated an actual effective tax rate for the year-to-date period ended June 30, 2007. The effective tax rate for the three months ended June 30, 2007 was 195%. The significant increase in the effective tax rate for the three months ended June 30, 2007 as compared to the first two interim periods in the year ending September 30, 2007 was primarily the result of losses incurred in foreign jurisdictions where the Company is unable to recognize a tax benefit and the fixed nature of certain tax charges associated with the transfer of certain intellectual property rights out of the United States as compared to the lower estimated pre-tax income.

The effective tax rate for the third quarter of fiscal 2007 was 195.3% which was higher than the effective tax benefit rate of 33.1% we reported for the third quarter of 2006, primarily due to the increased losses in foreign jurisdictions where we are unable to recognize a tax benefit and the recognition of tax expense associated with transfer of certain intellectual property rights out of the United States.

First Nine Months of Fiscal 2007 vs. First Nine Months of Fiscal 2006

The following table presents the consolidated statements of operations as well as the percentage relationship to total revenues of items included in our Consolidated Statements of Operations (amounts in thousands):

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	Nine Months Ended		% Change	Nine Months Ended				
	June 30, 2007	2006 (Restated)		June 30, 2007		2006 (Restated)		
				As a % of total revenues				
Revenues:								
Initial license fees (ILFs)	\$ 74,587	\$ 80,783	(7.7)%	26.5 %		31.1 %		
Monthly license fees (MLFs)	46,042	52,294	(12.0)%	16.4 %		20.1 %		