



TRANSACTION SYSTEMS ARCHITECTS INC
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News Release

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FOR IMMEDIATE RELEASE

Transaction Systems Architects Reports Fiscal 2002 Third Quarter Results

Highlights -

- Revenue was \$65.0 million, vs. guidance of \$61-66 million.
- Pro forma EPS of \$.12, vs. guidance of \$.03-.09.
- Pro forma operating income increased 234 percent year over year, 16 percent sequentially.
- Operating cash flow was \$10.5 million; cash balance increased to \$59.3 million.

(OMAHA, Neb.—July 30, 2002)—Transaction Systems Architects, Inc. (Nasdaq: TSAI) a leading global provider of enterprise e-payments and e-commerce solutions, announced today that revenue for the third quarter of fiscal 2002 was \$65.0 million and pro forma earnings per diluted share were \$.12. Operating cash flow for the quarter was \$10.5 million, the sixth consecutive quarter with strong operating cash flow, and the ending cash balance was \$59.3 million.

“We had a good quarter in a clearly difficult market for information technology spending,” said Greg Derkacht, president and CEO. “Licensing activity with existing customers improved, as customers reconfirmed their commitment to our e-payment platforms, driven by continued increases in e-payment transaction volume. Overall, our markets were mixed, as we saw particular strength in Canada and in the retail sector, but saw some weakness in parts of Latin America. We continued our efforts to adjust our cost model to reflect the demand picture, allowing us to deliver improved earnings. Our operating margin has increased throughout this fiscal year, and our cash balance is the highest it has been in over two years.”

“We made good progress on a number of fronts,” added Derkacht. “We saw an improved flow of capacity upgrades in the quarter; we added another top-100 U.S. retailer, bringing our total to

25 of the top 100; and we have now shipped the latest release of our BASE24 e-payments product to over 100 customers. In addition, we secured a new long-term commitment from Bank of America for the newest version of our Money Transfer System product. We continue to perform well competitively, as our customers appear to value our robust e-payment solutions as well as our commitment to improve the financial health of the Company.”

Pro forma net income for the quarter was \$4.2 million, or \$.12 per fully diluted share. Actual net income was \$1.3 million, or \$.04 per fully diluted share. Pro forma results from continuing operations are computed by excluding acquisition-related software amortization of \$1.2 million, a \$2.2 million write down in our carrying value of our investment in Nestor, Inc. and an additional gain on the sale of Regency Systems due to a purchase price adjustment of \$478,000.

The Company completed the third quarter of fiscal 2002 with \$179.1 million in backlog, up from \$169.7 million at the end of the second quarter, a 5.5 percent sequential increase. The current backlog consists of \$54.4 million of non-recurring revenue and \$124.7 million in recurring revenue. Recurring revenues include all monthly license fees, maintenance fees and facilities management fees that the Company expects to recognize over the next 12 months. Non-recurring revenues are composed of all other fees, including initial license fees, specified in software and services contracts the Company expects to recognize in the next 12 months.

During the quarter, the Company announced that it had engaged KPMG LLP as its auditors. In addition, during the quarter the Company renewed its line of credit with US Bank.

“For the fourth quarter, we are reiterating our previous guidance of revenue of \$62.5 to \$67.5 million and pro forma EPS of \$.08 to \$.13,” said Dwight Hanson, CFO. “We are comfortable with this guidance based on continued progress on our cost control efforts and an assumption that there will be no significant change in market demand during the next three months.”

“I am pleased with the overall progress we have made in the last several quarters,” said Derkacht. “We have done a good job of aligning our cost structure with the realities of the market and, as a result, our profitability and general financial health continue to improve. Our investment in the key technologies that respond to market need continues, and we expect these products to contribute to our financial performance as we go forward. Our commitment to product investment, customer support and industry leadership will ensure that we are positioned to serve our markets for the long term.”

The Company will provide further details regarding its financial performance for the third quarter of fiscal 2002 in its regularly scheduled earnings call, to be held Tuesday, July 30, 2002 at 4:00 pm CST. Interested persons may access a real-time audio broadcast of the teleconference at: www.tsainc.com/ir/ir.asp. The Web cast will be archived for 10 days after the teleconference at the same Web address listed above.

About Transaction Systems Architects, Inc.

Transaction Systems Architects' software facilitates electronic payments by providing consumers and companies access to their money. Its products are used to process transactions involving credit cards, debit cards, secure electronic commerce, mobile commerce, smart cards, secure electronic document delivery and payment, checks, high-value money transfers, bulk payment clearing and settlement, and enterprise e-infrastructure. Transaction Systems Architects' solutions are used on more than 1,750 product systems in 71 countries on six continents.

Forward-Looking Statements

This report contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Generally, forward-looking statements include words or phrases such as “management anticipates,” “the Company believes,” “the Company anticipates,” “the Company expects,” “the Company plans,” “the Company will,” and words and phrases of similar impact, and include but are not limited to statements regarding future operations, business strategy and business environment. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially. Factors that could cause actual results to differ include, but are not limited to, the following:

- The Company will continue to derive a majority of its total revenue from international operations and is subject to risks of conducting international operations including: difficulties in staffing and management, reliance on independent distributors, longer payment cycles, volatilities of foreign currency exchange rates, compliance with foreign regulatory requirements, variability of foreign economic conditions, and changing restrictions imposed by U.S. export laws.
- The Company will continue to derive a substantial majority of its total revenue from licensing its BASE24 family of software products and providing services and maintenance related to those products. Any reduction in demand for, or increase in competition with respect to, BASE24 products would have a material adverse effect on the Company's financial condition and results of operations.
- The Company will continue to derive a substantial portion of its revenues from licensing of software products that operate on Compaq Computer Corporation (“Compaq”) computers. Any reduction in demand for these computers or in Compaq's ability to deliver products on a timely basis could have a material adverse effect on the Company's financial condition and results of operations. Hewlett-Packard Company announced on May 3, 2002 that it completed its merger transaction with Compaq. Prior to the merger, Compaq announced a plan to consolidate its high-end performance enterprise servers on the Intel Corp. Itanium microprocessor by 2004. The Company has not determined whether the merger, or consolidation of the high-end servers if it occurs as announced, will materially affect the Company's business, financial position or results of operation.
- The Company's business is concentrated in the banking industry, making it susceptible to a downturn in that industry. Further, banks are continuing to consolidate, decreasing the overall number of potential buyers of TSA's products and services.
- New accounting standards, or additional interpretations or guidance regarding existing standards, could be issued in the future, which could lead to unanticipated changes in the Company's current financial

accounting policies. These changes could affect the timing of revenue or expense recognition and cause fluctuations in operating results.

- Fluctuations in quarterly operating results may result in volatility in the Company's stock price. No assurance can be given that operating results will not vary. The Company's stock price may also be volatile, in part, due to external factors such as announcements by third parties or competitors, inherent volatility in the high-technology sector and changing market conditions in the industry.
- The Company has expanded and may seek to continue to expand its operations through the acquisition of additional businesses. Acquisitions involve many risks that could have a material adverse effect on the Company's business, financial condition and results of operations. Management's negotiations of potential acquisitions and the integration of acquired businesses or technologies could divert their time and resources. Further, the Company may not be able to properly integrate acquired businesses or technology with its existing operations, train and motivate personnel from the acquired business, or combine potentially different corporate cultures.

For a detailed discussion of these and other risk factors, interested parties should review the Company's filings with the Securities and Exchange Commission.

FINANCIAL HIGHLIGHTS FOLLOW

TRANSACTION SYSTEMS ARCHITECTS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited and in thousands)

	<u>June 30,</u> <u>2002</u>	<u>September 30,</u> <u>2001</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 59,268	\$ 32,252
Marketable securities	2,960	2,650
Billed receivables, net	49,986	50,277
Accrued receivables	36,616	50,932
Prepaid income taxes	-	1,911
Deferred income taxes	9,550	8,700
Other	<u>6,858</u>	<u>10,990</u>
Total current assets	165,238	157,712
Property and equipment, net	12,444	14,580
Software, net	16,048	27,954
Goodwill, net	50,179	82,327
Long-term accrued receivables	18,320	24,916
Investments and notes receivable	1,327	1,309
Deferred income taxes	18,319	13,627
Other	<u>2,656</u>	<u>5,028</u>
Total assets	<u>\$ 284,531</u>	<u>\$ 327,453</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 422	\$ 12,559
Accounts payable	7,476	13,542
Accrued employee compensation	9,561	9,030
Income taxes payable	769	-
Accrued liabilities	19,552	23,369
Deferred revenue	<u>38,204</u>	<u>35,857</u>
Total current liabilities	75,984	94,357
Long-term debt	1,309	761
Long-term deferred revenue	8,365	12,610
Other	<u>1,093</u>	<u>1,057</u>
Total liabilities	<u>86,751</u>	<u>108,785</u>
Stockholders' equity:		
Class A Common Stock	184	184
Additional paid-in capital	223,541	222,501
Retained earnings	19,332	42,016
Treasury stock, at cost	(35,258)	(35,258)
Accumulated other comprehensive loss	<u>(10,019)</u>	<u>(10,775)</u>
Total stockholders' equity	<u>197,780</u>	<u>218,668</u>
Total liabilities and stockholders' equity	<u>\$ 284,531</u>	<u>\$ 327,453</u>

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TRANSACTION SYSTEMS ARCHITECTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

	<u>Three Months Ended June 30,</u>		<u>Nine Months Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Revenues:				
Software license fees	\$ 35,636	\$ 41,716	\$ 105,555	\$ 129,342
Maintenance fees	19,058	18,387	58,162	51,772
Services	10,282	13,568	32,242	43,685
Total revenues	<u>64,976</u>	<u>73,671</u>	<u>195,959</u>	<u>224,799</u>
Expenses:				
Cost of software license fees	7,671	10,723	27,816	33,547
Cost of maintenance and services	14,953	20,311	46,493	57,033
Research and development	8,711	10,854	26,678	31,645
Selling and marketing	16,496	20,483	49,602	58,425
General and administrative	14,002	26,513	41,286	58,690
Amortization of goodwill	-	4,293	-	10,073
Total expenses	<u>61,833</u>	<u>93,177</u>	<u>191,875</u>	<u>249,413</u>
Operating income (loss)	<u>3,143</u>	<u>(19,506)</u>	<u>4,084</u>	<u>(24,614)</u>
Other income (expense):				
Interest income, net	649	1,376	2,298	1,548
Other	325	(8,320)	658	(23,346)
Total other income (expense)	<u>974</u>	<u>(6,944)</u>	<u>2,956</u>	<u>(21,798)</u>
Income (loss) before income taxes	4,117	(26,450)	7,040	(46,412)
Income tax benefit (provision)	<u>(2,848)</u>	<u>4,935</u>	<u>(4,021)</u>	<u>6,941</u>
Income (loss) from continuing operations before cumulative effect of accounting change	1,269	(21,515)	3,019	(39,471)
Cumulative effect of accounting change	-	-	<u>(25,704)</u>	-
Net income (loss)	<u>\$ 1,269</u>	<u>\$ (21,515)</u>	<u>\$ (22,685)</u>	<u>\$ (39,471)</u>
Earnings per share information:				
Weighted average shares outstanding:				
Basic	<u>35,355</u>	<u>35,086</u>	<u>35,303</u>	<u>33,765</u>
Diluted	<u>35,735</u>	<u>35,086</u>	<u>35,576</u>	<u>33,765</u>
Basic earnings per share:				
Continuing operations	\$ 0.04	\$ (0.61)	\$ 0.09	\$ (1.17)
Cumulative effect of accounting change	-	-	<u>(0.73)</u>	-
Net income (loss)	<u>\$ 0.04</u>	<u>\$ (0.61)</u>	<u>\$ (0.64)</u>	<u>\$ (1.17)</u>
Diluted earnings per share:				
Continuing operations	\$ 0.04	\$ (0.61)	\$ 0.08	\$ (1.17)
Cumulative effect of accounting change	-	-	<u>(0.72)</u>	-
Net income (loss)	<u>\$ 0.04</u>	<u>\$ (0.61)</u>	<u>\$ (0.64)</u>	<u>\$ (1.17)</u>

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TRANSACTION SYSTEMS ARCHITECTS, INC.
Reconciliation of Actual Results to Pro Forma Results
For the Quarterly Period Ended June 30, 2002
(unaudited and in thousands, except per share amounts)

	Three Months Ended June 30, 2002		
	As Reported	Amortization and Other	Pro Forma
Revenues:			
Software license fees	\$ 35,636	\$ -	\$ 35,636
Maintenance fees	19,058	-	19,058
Services	10,282	-	10,282
Total revenues	64,976	-	64,976
Expenses:			
Cost of software license fees	7,671	(1,177)	6,494
Cost of maintenance and services	14,953	-	14,953
Research and development	8,711	-	8,711
Selling and marketing	16,496	-	16,496
General and administrative	14,002	-	14,002
Total expenses	61,833	(1,177)	60,656
Operating income (loss)	3,143	1,177	4,320
Other income (expense):			
Interest income, net	649	-	649
Other	325	1,766	2,091
Total other income (expense)	974	1,766	2,740
Income (loss) before income taxes	4,117	2,943	7,060
Income tax benefit (provision)	(2,848)	-	(2,848)
Income (loss) from continuing operations before cumulative effect of accounting change	1,269	2,943	4,212
Cumulative effect of accounting change	-	-	-
Net income (loss)	\$ 1,269	\$ 2,943	\$ 4,212
Earnings per share information:			
Weighted average shares outstanding:			
Basic	35,355		35,355
Diluted	35,735		35,735
Earnings per share:			
Basic	\$ 0.04		\$ 0.12
Diluted	\$ 0.04		\$ 0.12

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TRANSACTION SYSTEMS ARCHITECTS, INC.
Reconciliation of Actual Results to Pro Forma Results
For the Nine Months Ended June 30, 2002
(unaudited and in thousands, except per share amounts)

	Nine Months Ended June 30, 2002		
	As Reported	Amortization and Other	Pro Forma
Revenues:			
Software license fees	\$ 105,555	\$ -	\$ 105,555
Maintenance fees	58,162	-	58,162
Services	32,242	-	32,242
Total revenues	<u>195,959</u>	<u>-</u>	<u>195,959</u>
Expenses:			
Cost of software license fees	27,816	(5,646)	22,170
Cost of maintenance and services	46,493	-	46,493
Research and development	26,678	-	26,678
Selling and marketing	49,602	-	49,602
General and administrative	41,286	-	41,286
Total expenses	<u>191,875</u>	<u>(5,646)</u>	<u>186,229</u>
Operating income (loss)	<u>4,084</u>	<u>5,646</u>	<u>9,730</u>
Other income (expense):			
Interest income, net	2,298	-	2,298
Other	658	543	1,201
Total other income (expense)	<u>2,956</u>	<u>543</u>	<u>3,499</u>
Income (loss) before income taxes	7,040	6,189	13,229
Income tax benefit (provision)	<u>(4,021)</u>	<u>(1,264)</u>	<u>(5,285)</u>
Income (loss) from continuing operations before cumulative effect of accounting change	3,019	4,925	7,944
Cumulative effect of accounting change	<u>(25,704)</u>	<u>25,704</u>	<u>-</u>
Net income (loss)	<u>\$ (22,685)</u>	<u>\$ 30,629</u>	<u>\$ 7,944</u>
Earnings per share information:			
Weighted average shares outstanding:			
Basic	<u>35,303</u>		<u>35,303</u>
Diluted	<u>35,576</u>		<u>35,576</u>
Basic earnings per share:			
Continuing operations	\$ 0.09		\$ 0.23
Cumulative effect of accounting change	<u>(0.73)</u>		<u>-</u>
Net income (loss)	<u>\$ (0.64)</u>		<u>\$ 0.23</u>
Diluted earnings per share:			
Continuing operations	\$ 0.08		\$ 0.22
Cumulative effect of accounting change	<u>(0.72)</u>		<u>-</u>
Net income (loss)	<u>\$ (0.64)</u>		<u>\$ 0.22</u>

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