

TRANSACTION SYSTEMS ARCHITECTS INC
Form 8-K/A
July 30, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) December 14, 2000

TRANSACTION SYSTEMS ARCHITECTS, INC.
(Exact name of registrant as specified in its charter)

| | | |
|---|--|--|
| DELAWARE (State or other jurisdiction of incorporation) | 0-25346 (Commission File Number) | 47-0772104 (IRS Employer Identification No.) |
|---|--|--|

224 South 108th Avenue, Omaha, Nebraska 68154
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (402) 334-5101

EXPLANATORY NOTE: THIS FORM 8-K/A RESTATES AND AMENDS THE REGISTRANT'S FORM 8-K FILED DECEMBER 14, 2000 TO REMOVE THE COMPILATION REPORT (ON PRO FORMA FINANCIAL INFORMATION) ISSUED BY THE REGISTRANT'S ACCOUNTANTS, ARTHUR ANDERSEN LLP.

TRANSACTION SYSTEMS ARCHITECTS, INC.
FORM 8-K/A

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

99.01 Safe Harbor for Forward-Looking Statements under the Private Securities Litigation Reform Act of 1995

ITEM 9. Regulation FD Disclosure

On October 24, 2000 Transaction Systems Architects, Inc. ("TSA") announced in a press release that it had signed a definitive agreement to acquire

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MessagingDirect, Ltd, ("MDL") a company based in Edmonton, Canada, in an all-stock transaction. TSA plans to acquire all of the issued and outstanding securities of MDL in exchange for approximately 3.3 million shares of TSA Class A Common Stock. The share exchange, which has been approved by the board of directors of both companies, is subject to certain conditions including MDL securityholder approval and Canadian regulatory approvals. As contemplated by the definitive agreement, MessagingDirect has called a meeting of its securityholders to vote on the proposed acquisition by TSA on January 4, 2000. MDL also mailed the Information Circular for the proposed acquisition to its securityholders. The Information Circular will become available on the Internet at the website of SEDAR, the System for Electronic Document Analysis and Retrieval, which is the electronic filing system in Canada, at WWW.SEDAR.COM under the filings of MessagingDirect at the time such filings become available in accordance with the policies governing that system. The Information Circular includes information on the proposed acquisition, MDL, and TSA, among other matters. The Information Circular is MDL's document and MDL is solely responsible for the information contained in the Information Circular except for the information specifically pertaining to TSA.

The following are excerpts from MDL's Information Circular containing certain of the sections specifically pertaining to TSA.

BUSINESS OF TSA

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

The products and services of TSA are organized into four business units - Consumer e-Payments, Electronic Business Infrastructure, Corporate Banking e-Payments and Health Payment Systems. The products and related services associated with each business unit are as follows:

A. Consumer e-Payments products focus on the consumer side of financial institutions related to automated teller machine (ATM) networks, point-of-sale deployments, branch networks, home banking, fraud detection and back-office payments management and internet banking . In addition, Consumer e-Payments products offer retailers, merchant banks and payment processors electronic payment solutions such as secure web-based payments, debit and credit transaction authorization, fraud management and targeted marketing programs. Products in this group include BASE24, TRANS24, OCM24, Integrated Voice Response ("IVR"), Smart Card, WINPAY 24, E24, NET24 and Internet Banking (i24).

B. Electronic Business Infrastructure products facilitate communication, data movement, transaction processing and systems monitoring across incompatible computing systems involving mainframes, distributed computing networks and the Internet. Products in this group include ICE, Enguard and Extractor/Replicator products.

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C. Corporate Banking e-Payments products offer electronic commerce and electronic payments solutions to corporate banking institutions. Products in this group include Co-ach, MoneyTransfer System and MoneyNet.

D. Health Payment Systems products allow large companies and

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healthcare payment processors to automate claims eligibility determination, claims capture and claims payments.

TSA's primary Consumer e-Payments, Electronic Business Infrastructure and Corporate Banking e-Payments customers are large financial institutions, retailers or third-party processors operating large, geographically-distributed electronic payment networks capable of capturing large volumes of transactions through many types of devices and accessing a variety of switches. As at September 30, 1999, TSA's customer base included 111 of the 500 largest banks in the world as measured by asset size, and 22 of the top 100 retailers in the United States as measured by revenue. As of September 30, 1999, TSA had 2,314 customers in 79 countries on six continents. TSA's IVR product customers are typically small to midsize banks located primarily in the United States and totaled approximately 1,400 as of September 30, 1999. During fiscal years 1999, 1998 and 1997, approximately 53%, 55% and 54%, respectively, of TSA's total revenues resulted from international operations and approximately 66%, 63% and 64%, respectively, of its revenues were derived from licensing the BASE24 family of products and providing related service and maintenance.

During fiscal 2000, TSA announced plans to direct the majority of its focus on the Consumer e-Payments business. TSA is considering various alternatives for the Electronic Business Infrastructure, Corporate Banking e-Payments and Health Payment Systems businesses, including possible sales, spin-offs, strategic alliances, partnerships, third-party investors and initial public offerings. One of the first steps of this new business strategy was the announcement of the formation of Insession Technologies, the Electronic Business Infrastructure business unit of TSA. In June 2000 TSA announced that Insession Technologies, Inc. had filed a registration statement with the SEC for a proposed initial public offering of its common stock. In September 2000, however, TSA announced that it has postponed the initial public offering due to unfavorable market conditions and has engaged Salomon Smith Barney to assist in determining the best strategic alternatives for Insession Technologies. Nothing in this paragraph constitutes an offer to sell or a solicitation to buy any securities.

Executive Officers

The names, municipalities of residence, positions with TSA and the principal occupations of the Officers of TSA are set out below.

| Name and Municipality of Residence | Office Held and Principal Occupation | Position Held Since |
|--|---|---------------------|
| William E. Fisher Omaha, Nebraska, U.S.A. | Chief Executive Officer and Chairman of the Board | December 1, 1993 |
| David C. Russell Omaha, Nebraska, U.S.A. | President | February 25, 2000 |

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| Name and Municipality of Residence | Office Held and Principal Occupation | Position Held Since |
|--|--|---------------------|
| Dwight G. Hanson Omaha, Nebraska, U.S.A. | Treasurer, Chief Financial Officer and Senior Vice President | February 1, 2000 |
| David P. Stokes Omaha, Nebraska, U.S.A. | Vice President - Legal and Secretary | December 1, 1993 |
| Jeffrey S. Hale Omaha, Nebraska, U.S.A. | Senior Vice President - Strategic Business Development | March 1, 1999 |
| Mark R. Vipond Omaha, Nebraska, U.S.A. | Senior Vice President - Consumer Banking; President - ACI Worldwide Inc. | March 1, 1999 |
| Edward H. Mangold Omaha, Nebraska, U.S.A. | Senior Vice President | December 31, 1993 |
| Anthony J. Parkinson Hinsdale, Illinois, U.S.A. | Senior Vice President - Enterprise Solutions; CEO - Insession Technologies, Inc. | December 1, 1999 |
| Dennis D. Jorgensen Boston, Massachusetts, U.S.A. | Senior Vice President - Corporate Banking CEO - Intranet Inc. | February 25, 2000 |
| Edward C. Fuxa Omaha, Nebraska, U.S.A. | Chief Accounting Officer and Controller | February 25, 2000 |

INDEBTEDNESS OF DIRECTORS AND OFFICERS

In the first quarter of 2001, TSA entered into (1) an employment agreement and (2) an incentive compensation agreement with William E. Fisher, its Chief Executive Officer. The employment agreement is for a term of three years and provides for a base annual salary of U.S.\$200,000. No bonus compensation is payable pursuant to the employment agreement. Pursuant to the incentive compensation agreement, TSA made a loan to Mr. Fisher in the amount of U.S.\$3.0 million, which bears interest at 6.35%. Subject to certain prepayment obligations and forgiveness upon the occurrence of certain events, principal and accrued interest are due after three years. Pursuant to the terms of the loan, all of the principal and accrued interest are subject to forgiveness in the event of certain changes of control, death, or termination without cause; one-half of the principal and accrued interest are subject to forgiveness if Mr. Fisher remains employed with TSA for the three-year term; and one-half of the principal and accrued interest is subject to forgiveness in the event the closing bid price for TSA Class A Common Shares reaches certain price targets.

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SECURITY OWNERSHIP

The following table sets forth certain information regarding beneficial ownership of TSA Class A Common Shares as of December 1, 2000, by (i) each of TSA's directors, (ii) each of the executive officers named in the Summary Compensation Table below (iii) all executive officers and directors as a group, and (iv) each person known by TSA to be the beneficial owner of more than 5% of

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the outstanding TSA Class A Common Shares.

| Beneficial Owner ----- | Number of Shares ----- | Pe |
|--|------------------------------|----|
| Waddell & Reed Financial, Inc. (1) | 3,437,300 | 1 |
| Massachusetts Financial Services Co. (2) | 2,941,802 | |
| Jurika & Voyles, L.P. (3) | 2,001,580 | |
| Brown Capital Management, Inc. (4) | 1,683,700 | |
| Charles E. Noell (5) | 14,325 | |
| Jim D. Kever (6) | 20,800 | |
| Larry G. Fendley (7) | 24,700 | |
| Gregory J. Duman (8) | 148,994 | |
| Roger K. Alexander (9) | - | |
| William E. Fisher (10) (11) | 531,000 | |
| David C. Russell (10) (12) | 112,412 | |
| Anthony J. Parkinson (10) (13) | 46,166 | |
| Edward H. Mangold (10) (14) | 187,008 | |
| Mark R. Vipond (10) (15) | 121,583 | |
| All Directors and Executive Officers as a Group (15 persons) (16) | 1,457,674 | |

- (1) The number of shares in the table is based on a Schedule 13F dated September 30, 2000, which indicates that Waddell & Reed Financial, Inc. and related entities have sole investment discretion and sole voting power over 3,437,300 shares.
- (2) The number of shares in the table is based on a Schedule 13F dated September 30, 2000, which indicates that Massachusetts Financial Services Co. has sole investment discretion over 2,941,802 shares, sole voting power over 2,298,882 shares, and no voting power over 642,920 shares.
- (3) The number of shares in the table is based on a Schedule 13F dated September 30, 2000.
- (4) The number of shares in the table is based on a Schedule 13F filed on November 15, 2000, which indicates that Brown Capital Management, Inc. has sole investment discretion over 1,683,700 shares, sole voting power over 1,152,700 shares, and shared voting power over 531,000 shares.
- (5) Includes 1,650 shares owned by Mr. Noell's children. Mr. Noell's business mailing address is 12680 High Bluff Road, Number 200, San Diego, CA 92130-2002.
- (6) Consists of 20,800 shares issuable upon exercise of options. Mr. Kever's business mailing address is Two Lakeview Place, 15 Century Boulevard, Suite 600, Nashville, TN 37214.
- (7) Includes 20,800 shares issuable upon exercise of options and 600 owned by Mr. Fendley's wife. Mr. Fendley's business mailing address is 635 Southwest 42nd Street, Paris, TX 75460.

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- (8) Includes 33,916 shares issuable upon exercise of options and 1,800 owned by Mr. Duman's children. Mr. Duman's business mailing address is 13710 FNB Parkway, Suite 300, Omaha, NE 68154.
- (9) Mr. Alexander's business address is Candlewick House, 120 Cannon Street, London, England EC4N 6AS.

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- (10) The business address is 224 South 108th Avenue, Omaha, NE 68154.
- (11) Includes 450,000 owned by a corporation of which Mr. Fisher is a principal shareholder. Also includes 81,000 shares issuable upon exercise of options.
- (12) Includes 83,932 shares issuable upon exercise of options.
- (13) Includes 31,166 shares issuable upon exercise of options.
- (14) Includes 67,416 shares issuable upon exercise of options and 35,000 shares owned by Mr. Mangold's wife.
- (15) Includes 67,416 shares issuable upon exercise of options and 5,000 shares owned by Mr. Vipond's wife.
- (16) Includes 589,793 shares issuable upon exercise of options.

INTEREST OF INSIDERS IN CERTAIN TRANSACTIONS

TSA and KFS Management, Inc. are parties to agreements pursuant to which KFS Management, Inc. leased two aircraft to TSA on a non-exclusive basis for business use by TSA. The lease agreements terminated on December 31, 1999. Mr. Fisher and his brother-in-law are the sole stockholders of KFS Management, Inc. During fiscal 2000, TSA paid KFS Management, Inc. a total of U.S.\$65,000 under the lease agreements. During fiscal 2000, TSA also reimbursed KFS Management, Inc. a total of U.S.\$8,507 for aircraft-related supplies and the services of its employees.

EXECUTIVE COMPENSATION

The following table sets forth certain compensation information as to the Chief Executive Officer ("CEO") and the four highest paid executive officers (collectively, the "Named Executive Officers") of TSA for each of the years ended September 30, 1998, 1999, and 2000.

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary(\$) | Bonus(\$)(1) | Annual Compensation Other Annual Compensation (2) | Long-Term Compensation Awards (3) Securities Underlying Options (#)(3) |
|--------------------------------|------|------------|--------------|---|---|
| William E. Fisher | 2000 | 206,250 | 69,833 | 59,340 | 125,000 |
| Chairman and Chief | 1999 | 250,000 | 231,489 | ----- | 18,000 |
| Executive Officer | 1998 | 233,333 | 255,768 | ----- | None |

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| Name and Principal Position | Year | Salary(\$) | Bonus(\$)(1) | Annual Compensation Other Annual Compensation (2) | Long-Term Compensation Awards (3) Securities Underlying Options (#)(3) |
|--------------------------------|------|------------|--------------|---|---|
|--------------------------------|------|------------|--------------|---|---|

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| Name | Year | 2000 | 1999 | 1998 | 2000 |
|--|------|---------|---------|-------|---------|
| David C. Russell President | 2000 | 241,250 | 118,714 | ----- | 130,000 |
| | 1999 | 172,500 | 130,799 | ----- | 18,000 |
| | 1998 | 150,000 | 154,255 | ----- | None |
| Anthony Parkinson Senior Vice President | 2000 | 100,000 | 334,570 | ----- | 27,000 |
| | 1999 | 100,000 | 340,628 | ----- | 9,000 |
| | 1998 | 65,000 | 454,178 | ----- | None |
| Edward H. Mangold Senior Vice President | 2000 | 160,000 | 174,562 | ----- | 27,000 |
| | 1999 | 145,000 | 212,542 | ----- | 9,000 |
| | 1998 | 96,791 | 234,618 | ----- | None |
| Mark R. Vipond Senior Vice President | 2000 | 254,572 | 93,737 | ----- | 27,000 |
| | 1999 | 130,000 | 82,877 | ----- | 9,000 |
| | 1998 | 100,000 | 106,024 | ----- | None |

- (1) TSA's executive officers are eligible for quarterly cash bonuses. Such bonuses are generally based upon achievement of corporate, geographic or product performance objectives including sales, revenue, pretax profit, backlog and cash flow.
- (2) "Other Annual Compensation" includes amounts paid by TSA for personal use of the TSA airplane.
- (3) Includes options granted from TSA's 1999, 1996, and 1994 Stock Option Plans.
- (4) Includes contributions made to TSA's retirement plans. For fiscal 2000, employer contributions to TSA's 401(k) Retirement Plan were \$4,000 each for Messrs. Fisher, Russell, Parkinson, Mangold, and Vipond, respectively.
- (5) Each of Messrs. Fisher, Russell, Parkinson, Mangold, Vipond, and certain other executive officers of TSA are party to an agreement pursuant to which each has agreed not to compete with TSA for so long as he or she is a stockholder of TSA. At the election of TSA, the non-compete agreement may remain in effect for two years after termination of employment (even if he or she is no longer a stockholder) if TSA pays him or her for two years. No amounts were paid in 2000 under this agreement.

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OPTION GRANTS IN LAST FISCAL YEAR
Individual Grants

| Name | Number of Securities Underlying Options Granted (#) (1) | Percent of Total Options Granted to Employees In Fiscal Year | Exercise Price (\$/sh) | Expiration Date | Grant Present (\$) |
|-------------------|---|--|------------------------|-----------------|--------------------|
| William E. Fisher | 125,000 | 10.43% | 25.9380 | 2/22/2010 | 1,74 |
| David C. Russell | 5,000 | 0.42% | 25.0625 | 10/19/2009 | 6 |
| | 58,753 | 4.90% | 25.9380 | 2/22/2010 | 82 |
| | 23,837 | 1.99% | 27.2500 | 3/29/2010 | 36 |

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| | | | | | |
|-------------------|--------|-------|---------|------------|----|
| | 42,410 | 3.54% | 18.5630 | 8/8/2010 | 42 |
| Anthony Parkinson | 2,000 | 0.17% | 25.0625 | 10/19/2009 | 2 |
| | 25,000 | 2.09% | 25.9380 | 2/22/2010 | 34 |
| Edward H. Mangold | 2,000 | 0.17% | 25.0625 | 10/19/2009 | 2 |
| | 25,000 | 2.09% | 25.9380 | 2/22/2010 | 34 |
| Mark R. Vipond | 2,000 | 0.17% | 25.0625 | 10/19/2010 | 2 |
| | 25,000 | 2.09% | 25.9380 | 2/22/2010 | 34 |

- (1) The options referred to in this table were granted under TSA's 1994, 1996, and 1999 Stock Option Plans. Vesting of the options granted under the 1999 and 1996 Stock Option Plans occurs on an annual pro rata basis over a term of three years from the date of grant. Vesting of options granted under the 1994 Stock Option Plan occurs on a monthly pro rata basis over a term of 48 months from the date of grant.
- (2) Grant date present value is determined using a modified Black-Scholes option pricing model. The estimated values under this model are based on several assumptions, including a weighted-average expected volatility of 38%, a weighted-average risk-free rate of return of 5.7%, no dividend yield and expected option lives of 6.2 years and may not be indicative of actual value. The actual gain, if any, the option holder may realize will equal the excess of the actual market price of the stock on the date the option is exercised over the exercise price. There is no assurance that the value that may be realized by the option holder will be at or near the value estimated by the modified Black-Scholes model.

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AGGREGATED OPTION EXERCISES IN THE LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION VALUES

| Name | Shares | Value Realized (\$) | Number of Securities Underlying Unexercised Options at Fiscal Year-end (#) | Value In-the- Fisca |
|----------------------|--------------------------------|------------------------|---|---------------------------|
| | Acquired On Exercise (#) | | Exercisable/Unexercisable | Exercisable |
| William E. Fisher | 0 | 0 | 81,000/162,000 | |
| David C. Russell | 0 | 0 | 81,985/16,6015 | |
| Anthony J. Parkinson | 10,000 | 179,729 | 30,500/45,500 | |
| Edward H. Mangold | 0 | 0 | 66,750/54,250 | |
| Mark R. Vipond | 0 | 0 | 66,750/54,250 | |

- (1) None of the options are "In-the Money" options at the end of the last fiscal year, since the fair market value (closing bid price per the NASDAQ Market) of the Common Stock at the end of the last fiscal year (\$14.313 per share) did not exceed the exercise price of the Options.

OPTIONS TO PURCHASE SECURITIES

The following table sets forth (i) the number of shares subject to options

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held as of December 1, 2000 by Directors and executive officers as a group, and (ii) all TSA employees as a group.

| | Unvested Shares ----- | Vested Shares ----- | Total Shares ----- |
|---|-----------------------------|---------------------------|--------------------------|
| Directors and executive officers as a group | 738,357 | 589,793 | 1,328,150 |
| All employees as a group | 1,997,829 | 1,940,256 | 3,938,085 |

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SEVERANCE COMPENSATION AGREEMENTS

TSA has entered into Severance Compensation Agreements (the "Agreements") with 9 of its executive officers, including each of the Named Executive Officers, and 8 other employees. Generally, the Agreements provide that if there is a Change in Control (as defined in the Agreements) of TSA and the employee's employment with TSA is subsequently terminated within two years after the Change in Control other than as a result of death, Retirement (as defined in the Agreements), termination by TSA for Cause (as defined in the Agreements), or the employee's decision to terminate employment other than for Good Reason (as defined in the Agreements), the employee will be entitled to receive from TSA certain payments and benefits. These payments and benefits include (i) a lump sum payment (the "Severance Amount") equal to, in the case of Messrs. Fisher and Russell, and Douglas Parr and David P. Stokes, two times the average Compensation (as defined in the Agreements) of the employee during the two most recent fiscal years of TSA ending prior to the Date of Termination (as defined in the Agreements), or in the case of the other executive officers (including Messrs. Mangold, Vipond, and Parkinson) and employees who entered into Severance Compensation Agreements with TSA, one times the average Compensation of the employee during the two most recent fiscal years of TSA ending prior to the Date of Termination; (ii) earned but unpaid base salary through the Date of Termination; (iii) a quarterly incentive award for the current fiscal quarter prorated through the Date of Termination equal to the greater of the quarterly incentive award made to the employee for the most recent fiscal quarter ending prior to the Date of Termination or the average quarterly incentive award made to the employee for the most recent three fiscal years ending prior to the Date of Termination; (iv) interest on the amounts described in (i), (ii) and (iii); and (v) unless the employee's termination of employment is the result of the employee's Disability (as defined in the Agreements), continued participation at TSA's cost in employee benefit plans available to TSA employees generally in which the employee was participating, until the earlier of receiving equivalent benefits from a subsequent employer or two years from the Date of Termination.

For purposes of determining the Severance Amount referred to above, compensation generally includes compensation includable in the gross income of the employees, but excluding amounts realized on the exercise of non-qualified stock options, amounts realized from the sale of stock acquired under an incentive stock option or an employee stock purchase plan, and compensation deferrals made pursuant to any plan or arrangement maintained by TSA. The Agreements provide that in no event will the Severance Amount be less than, in the case of Messrs. Fisher and Russell, and Douglas Parr and David P. Stokes, two times, and in the case of the other executive officers and employee, one times, the employee's annual rate of base salary at the higher of the annual rate in effect (i) immediately prior to the Date of Termination or (ii) on the

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date six months prior to the Date of Termination.

Under the Agreements, in the event of a Change in Control, unvested awards and benefits (other than stock options or awards) allocated to the employee under Incentive Plans shall fully vest and become payable in cash.

The Agreements provide that in the event any payment by TSA would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the employee with respect to such excise tax, then

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the employee will be entitled to an additional payment in an amount such that, after payment by the employee of all taxes, the employee is in the same after-tax position as if no excise tax had been imposed.

Under the Agreements, TSA agrees to indemnify the employee to the fullest extent permitted by law if the employee is a party or threatened to be made a party to any action, suit or proceeding in which the employee is involved by reason of the fact that the employee is or was a director or officer of TSA, by reason of any action taken by him or of any action on his part while acting as director or officer of TSA, or by reason of the fact that he is or was serving at the request of TSA as a director, officer, employee or agent of another enterprise. TSA also agrees to obtain and maintain a directors' and officers' liability insurance policy covering the employee.

The Agreements terminate upon the earlier of (i) termination of employment for any reason prior to a Change in Control and (ii) three years after the date of a Change in Control.

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PERFORMANCE GRAPH

In accordance with Securities and Exchange Commission Rules, the following table shows a line-graph presentation comparing cumulative stockholder return on an indexed basis with a broad equity market index and either a nationally recognized industry standard or an index of peer selected by TSA. TSA has selected the S&P 500 Index and the NASDAQ Computer & Data Processing Services ("C&DP") Index for comparison.

[GRAPH]

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN AMONG TRANSACTION SYSTEMS ARCHITECTS, INC., THE S&P 500 AND THE NASDAQ COMPUTER & DATA PROCESSING

| | CUMULATIVE TOTAL RETURN | | | | | |
|--------------------------------------|-------------------------|--------|--------|--------|--------|--------|
| | 9/95 | 9/96 | 9/97 | 9/98 | 9/99 | 9/00 |
| TRANSACTION SYSTEMS ARCHITECTS, INC. | 100.00 | 315.89 | 303.74 | 265.42 | 201.40 | 121.50 |
| S&P 500 | 100.00 | 120.34 | 169.01 | 184.30 | 235.54 | 266.83 |
| NASDAQ COMPUTER & DATA PROCESSING | 100.00 | 124.02 | 167.84 | 217.53 | 367.74 | 464.32 |

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Assumes \$100 invested on 9/30/95 in the Company's Common Stock (at a closing price on that date of \$13.373 per share, adjusted for a two-for-one stock split effected in the form of a 100% stock dividend in July 1996), the S&P 500 Index and the NASDAQ C&DP Index.

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TSA UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The TSA Unaudited Pro Forma Condensed Consolidated Financial Statements give effect to the combination of TSA and MDL through the issuance of TSA Class A Common Shares and the Exchangeable Shares and/or Replacement TSA Options for the applicable MDL Securities. The unaudited pro forma statement of operations for the year ended September 30, 1999 reflects the combination as if it had taken place on October 1, 1998. The unaudited pro forma condensed consolidated balance sheet gives effect to the combination as if it had taken place on September 30, 1999. The unaudited pro forma condensed consolidated statement of operations combines TSA's historical results of operations for the year ended September 30, 1999 with MDL's historical results of operations for the nine months ended December 31, 1999.

The MessagingDirect historical financial statements on which the pro forma financial statements are based are currently available in documents filed by MessagingDirect on SEDAR (www.sedar.com) under MessagingDirect's filings. The MessagingDirect financial statements and the documents in which they are contained are the responsibility of MessagingDirect and not TSA. The TSA financial statements on which the pro forma financial statements are based are contained in a previous TSA annual report filed with the Securities and Exchange Commission.

MDL's management has indicated that the inclusion of the figures for the first quarter of MDL's fiscal 1999 would not be material to the TSA Unaudited Pro Forma Condensed Consolidated Financial Statements.

The TSA Unaudited Pro Forma Condensed Consolidated Financial Statements reflect the combination using the purchase method of accounting and have been prepared on the basis of assumptions described in the notes thereto, including assumptions relating to the allocation of the total purchase cost to the assets and liabilities of MDL based upon preliminary estimates of their fair value. The actual allocation may differ from those assumptions after valuations and other procedures, to be performed after the completion of the Transaction, are finalized.

The TSA Unaudited Pro Forma Condensed Consolidated Financial Statements should be read in conjunction with the TSA Audited Financial Statements, the MDL Audited Financial Statements, the MDL Unaudited Financial Statements and the TSA Unaudited Condensed Consolidated Financial Statements. The TSA Unaudited Pro Forma Condensed Consolidated Financial Statements are not necessarily indicative of what the actual operating results or financial position would have been had the combination actually taken place on October 1, 1998 or September 30, 1999 and do not purport to indicate TSA's future results of operations.

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TRANSACTION SYTEMS ARCHITECTS, INC. AND MESSAGINGDIRECT LTD.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 1999
(IN U.S. \$ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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| | TSA September 30, 1999 | MDL December 31, 1999 | Pro Forma Adjustments |
|---|------------------------------|-----------------------------|--------------------------|
| | ----- | ----- | ----- |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 70,482 | \$ 8,629 | \$ - |
| Marketable securities | 8,456 | - | - |
| Billed receivables, net of allowances | 50,619 | 2,018 | - |
| Accrued receivables | 41,880 | - | - |
| Deferred income taxes | 7,468 | - | - |
| Other | 7,215 | 416 | - |
| | ----- | ----- | ----- |
| Total current assets | 186,120 | 11,064 | - |
| Property and equipment, net | 20,754 | 318 | - |
| Software, net | 25,835 | 359 | 14,661 |
| Intangible assets, net | 61,612 | 1,576 | 27,747 |
| Long-term accrued receivables | 26,850 | - | - |
| Investments and notes receivable | 3,569 | - | - |
| Other | 4,785 | - | - |
| | ----- | ----- | ----- |
| Total assets | \$329,525 | \$13,316 | \$ 42,408 |
| | ===== | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Current portion of long-term debt | \$ 501 | \$ 715 | \$ - |
| Accounts payable | 8,030 | 1,127 | - |
| Accrued employee compensation | 7,192 | - | - |
| Accrued liabilities | 18,287 | - | 2,075 |
| Income taxes | 8,521 | - | - |
| Deferred revenue | 54,627 | 1,027 | - |
| | ----- | ----- | ----- |
| Total current liabilities | 97,158 | 2,869 | 2,075 |
| Long-term debt | 991 | 87 | - |
| Deferred income taxes | 6,207 | 331 | - |
| | ----- | ----- | ----- |
| Total liabilities | 104,356 | 3,287 | 2,075 |
| | ----- | ----- | ----- |
| Stockholders' equity: | | | |
| Class A Common Stock | 163 | - | 17 |
| Additional paid-in capital | 161,630 | 12,625 | 37,721 |
| Retained earnings (accumulated deficit) | 82,922 | (2,595) | 2,595 |
| Treasury stock, at cost | (14,250) | - | - |
| Accumulated other comprehensive income | (5,296) | - | - |
| | ----- | ----- | ----- |
| Total stockholders' equity | 225,169 | 10,030 | 40,333 |
| | ----- | ----- | ----- |

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| | | | |
|--|--------------------|-------------------|--------------------|
| Total liabilities and stockholders' equity | \$329,525 ===== | \$13,316 ===== | \$ 42,408 ===== |
|--|--------------------|-------------------|--------------------|

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TRANSACTION SYSTEMS ARCHITECTS, INC. AND MESSAGINGDIRECT LTD.
 UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 1999
 (IN U.S. \$ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | TSA (Twelve months ended September 30, 1999) ----- | MDL (Nine months ended December 31, 1999) ----- | Pro Forma Adjustment ----- |
|---|---|--|----------------------------------|
| Revenues: | | | |
| Software license fees | \$ 210,002 | \$ - | \$ 2,49 |
| Maintenance fees | 63,933 | - | 58 |
| Services | 76,857 | - | 20 |
| Hardware, net | 4,002 | - | |
| Revenues | - | 3,294 | (3,29 |
| | ----- | ----- | ----- |
| Total revenues | 354,794 | 3,294 | |
| | ----- | ----- | ----- |
| Expenses: | | | |
| Cost of software license fees | 44,079 | 122 | 4,88 |
| Cost of maintenance and services | 72,096 | 305 | |
| Research and development | 34,612 | 1,099 | |
| Selling and marketing | 70,121 | 1,616 | |
| General and administrative: | | | |
| General and administrative costs | 58,725 | 854 | |
| Amortization of goodwill and purchased intangibles | 4,901 | 128 | 5,73 |
| | ----- | ----- | ----- |
| Total expenses | 284,534 | 4,123 | 10,62 |
| | ----- | ----- | ----- |
| Operating income | 70,260 | (829) | (10,62 |
| | ----- | ----- | ----- |
| Other income (expense): | | | |
| Interest income | 2,947 | - | |
| Interest expense | (401) | - | |
| Transaction related expenses | (653) | - | |
| Other | (283) | - | |
| | ----- | ----- | ----- |
| Total other | 1,610 | - | |
| | ----- | ----- | ----- |
| Income before income taxes | 71,870 | (829) | (10,62 |

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| | | | |
|----------------------------|-----------|----------|-----------|
| Provision for income taxes | (27,170) | (169) | 3,61 |
| | ----- | ----- | ----- |
| Net income | \$ 44,700 | \$ (998) | \$ (7,01) |
| | ===== | ===== | ===== |
| Earnings Per Share Data: | | | |
| Basic: | | | |
| Net income | \$ 1.41 | | |
| | ===== | | |
| Shares used in computation | 31,667 | | 3,35 |
| | ===== | | ===== |
| Diluted: | | | |
| Net income | \$ 1.38 | | |
| | ===== | | |
| Shares used in computation | 32,363 | | 3,35 |
| | ===== | | ===== |

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NOTES TO TRANSACTION SYSTEMS ARCHITECTS, INC. AND MESSAGINGDIRECT LTD. UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited pro forma condensed consolidated financial statements have been prepared using the audited consolidated financial statements of Transaction Systems Architects, Inc. (TSA) as of and for the year ended September 30, 1999, which were audited by Arthur Andersen LLP, and the consolidated financial statements of Messaging Direct Ltd. (MDL) as of and for the nine months ended December 31, 1999, which were audited by other auditors.

The information presented is expressed in U.S. dollars and in accordance with U.S. GAAP. The management of TSA believes there would be no material differences in the pro forma financial statements if they were prepared in accordance with Canadian GAAP and believes the MDL Consolidated Balance Sheet and Consolidated Statement of Operations, which have been presented in accordance with Canadian GAAP, would not require material adjustments to be presented in accordance with U.S. GAAP.

The MDL Consolidated Balance Sheet was translated from Canadian dollars into U.S. dollars at the exchange rate at December 31, 1999 of 0.6924 (U.S. \$1.00 equals Cdn. \$1.444). The MDL Consolidated Statement of Operations was translated from Canadian dollars to U.S. dollars at the average rate for the nine months ended December 31, 1999 of 0.6794 (U.S. \$1.00 equals Cdn. \$1.472).

The unaudited pro forma condensed consolidated financial statements do not reflect the business acquisitions TSA has made since September 30, 1999. In April 2000, TSA acquired WorkPoint Systems, Inc. for 164,680 shares of TSA Class A Common Stock, with a market value of approximately \$4.8 million. In June 2000, TSA acquired 70% ownership interest in Hospital Health Plan Corporation for \$4.6 million in cash and \$3.3 million in assumed liabilities. Together the two acquisitions resulted in the recording of goodwill of approximately \$12.1 million.

1. The historical results of MDL have been reclassified to conform to TSA's basis of presentation for its Condensed Consolidated Financial Statements.
2. The purchase price for the completion of the MDL acquisition was determined by combining the value of TSA Common Stock or TSA Exchangeable shares

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to be issued to MDL Security Holders (approximately 3,357,500 shares valued at \$15.00 per share) and the estimated transaction costs for the acquisition. The estimated direct transaction costs to be incurred by the Combined Company include transaction fees for attorneys, accountants, financial printing, and other related charges. The purchase price for the completion of the acquisition is summarized below (in thousands):

| | | |
|-----------------------------|----|--------|
| Common stock | \$ | 50,362 |
| Estimated transaction costs | | 2,075 |

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| | | |
|---|----|---------|
| Net assets acquired after elimination of MDL pre-acquisition goodwill of \$1,576 | | (8,453) |
| | | ----- |
| Total Intangible | \$ | 43,984 |
| | | ===== |

The estimated allocation of the purchase price attributable to intangibles has been estimated, for purposes of these pro forma financial statements to be as follows (in thousands):

| | | |
|------------------|----|--------|
| Software | \$ | 14,661 |
| Goodwill | | 29,323 |
| | | ----- |
| Total Intangible | \$ | 43,984 |
| | | ===== |

The amounts allocated to software and goodwill are preliminary and subject to the receipt of an appraisal of the MDL business.

In conjunction with the acquisition of MDL, TSA will be issuing approximately \$1 million of preferred stock to non-MDL Security Holders. This preferred stock issuance has not been reflected in these unaudited pro forma condensed consolidated financial statements.

3. Amortization of the software and goodwill for MDL will be on the straight-line method over three years and five years, respectively. The amortization of software is included in cost of software license fees and the amortization of goodwill is included in amortization of goodwill and purchased intangibles.

4. To record the issuance of common stock related to the purchase of MDL. It is assumed that all Exchangeable Shares have been exchanged for TSA Class A Common Stock, and that, accordingly, the Special Voting Share is cancelled. It is also assumed that the Replacement TSA Options will be immediately exercised.

5. To eliminate the accumulated deficit of MDL.

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6. To record income tax provision related to the Pro Forma adjustments.

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PRO FORMA CAPITALIZATION OF TSA

The following table sets forth the capitalization of TSA and the pro forma capitalization of TSA (post Transaction) as at September 30, 1999 on the basis of the assumptions set forth in the TSA Unaudited Pro Forma Condensed Consolidated Financial Statements. This data should be read in conjunction with the TSA Audited Financial Statements, the MDL Audited Financial Statements and the TSA Unaudited Condensed Consolidated Financial Statements.

PRO FORMA CAPITALIZATION OF TSA
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS - U.S. DOLLARS)
(UNAUDITED)

| | TSA |
|--|------------|
| | ----- |
| Stockholders' equity: | |
| Redeemable Convertible Preferred Stock, \$.01 par value; 5,450,000 shares authorized; no shares issued and outstanding at September 30, 1999 | \$ - |
| Redeemable Convertible Class B Common Stock and Warrants, \$.05 par value; 5,000,000 shares authorized; no shares issued and outstanding at September 30, 1999 | - |
| TSA Class A Common Shares, \$.005 par value; 50,000,000 shares authorized; 32,580,637 shares issued at September 30, 1999 and 35,938,137 as adjusted(1) | 163 |
| Class B Common Stock, \$.005 par value; 5,000,000 shares authorized; no shares issued and outstanding at September 30, 1999 | - |
| Additional paid-in capital | 161,630 |
| Retained earnings | 82,922 |
| Treasury stock, at cost, 475,845 shares at September 30, 1999 | (14,250) |
| Accumulated other comprehensive income | (5,296) |
| | ----- |
| Total stockholders' equity | \$ 225,169 |
| | ===== |

- (1) Assumes that all Exchangeable Shares have been exchanged for TSA Class A Common Shares, and that, accordingly, the Special Voting Share is cancelled. Also assumes that the Replacement TSA Options are immediately exercised. Excludes 3,352,874 TSA Class A Common Shares issuable upon the exercise of the TSA stock options outstanding at September 30, 1999.

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COMPARATIVE PER SHARE DATA

The following table presents certain historical per share data of TSA and certain unaudited Pro Forma Per share data that reflect the combination of

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TSA and MDL using the purchase method of accounting. This data should be read in conjunction with the TSA Audited Financial Statements, the MDL Audited Financial Statements and the TSA Unaudited Condensed Consolidated Financial Statements and the TSA Unaudited Pro Forma Condensed Consolidated Financial Statements. The TSA unaudited pro forma combined per share data do not necessarily indicate the operating results that would have been achieved had the combination of TSA and MDL actually occurred at the beginning of the periods presented nor do they indicate future results of operations or financial position.

AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 1999
(IN U.S. DOLLARS)

| | TSA (1) | MDL (1) | | TSA MDL |
|---|---------|-----------|----|---------|
| Net income per share: | | | | |
| Canadian GAAP: | | | | |
| Basic | n/a | \$ (0.14) | | n/a |
| Diluted | n/a | \$ (0.14) | | n/a |
| U.S. GAAP: | | | | |
| Basic | \$ 1.41 | \$ (0.14) | \$ | 1.0 |
| Diluted | \$ 1.38 | \$ (0.14) | \$ | 1.0 |
| Book value per share at period end (2), (3) | | | | |
| Canadian GAAP | n/a | \$ 1.41 | | n/a |
| U.S. GAAP | \$ 7.11 | \$ 1.41 | \$ | 7.6 |

-
- (1) Because of the different year ends, consolidated financial information relating to TSA's fiscal year ended September 30, 1999 has been combined with the consolidated financial information relating to MDL's nine month period ended December 31, 1999.
 - (2) The historical book value per share is computed by dividing total stockholders' equity as of the end of the period (September 30, 1999 for TSA and December 31, 1999 for MDL) by the number of shares outstanding as of the end of the period (excluding treasury shares).
 - (3) The pro forma book value per share is computed by dividing total pro forma stockholder's equity by the pro forma number of shares outstanding at the end of the period. For purposes of computing pro forma book value per share as of September 30, 1999, the pro forma book value of U.S.\$275.5 million was divided by the pro forma shares outstanding of 35 million shares.
 - (4) The MDL pro forma equivalent per share amounts are computed by multiplying the TSA MDL pro forma combined per share amounts by the Exchange Ratio of 0.1536 of a TSA Class A Common Share.

The statements in this report regarding future results or events are preliminary and "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, this report contains other forward-looking statements including statements regarding the TSA's expectations, plans, strategies, and beliefs. The forwarding-looking statements in this report are subject to a variety of risks and uncertainties. Actual results could differ materially. Factors that could cause actual results to differ include but are not limited to those described in the TSA's filings with the Securities and Exchange Commission, including Exhibit 99.01 to this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TRANSACTION SYSTEMS ARCHITECTS, INC.

Dated: July 30, 2001

By: /s/ Dwight G. Hanson

Dwight G. Hanson
Chief Financial Officer
(Principal Financial Officer)

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EXHIBIT INDEX

| Exhibit Number ----- | Description ----- |
|----------------------------|---|
| 99.01* | Safe Harbor for Forward-Looking Statements under the Private Securities Litigation Reform Act of 1995 |

* Incorporated by reference to the Registrant's Report on Form 8-K as filed with the Securities and Exchange Commission on December 14, 2000.

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