

ACI WORLDWIDE, INC.

Form 10-K/A

March 04, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2007

ACI WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

120 Broadway, Suite 3350

New York, New York 10271

(Address of principal executive offices,
including zip code)

47-0772104

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

(646) 348-6700

(Registrant's telephone number,
including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

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Securities registered pursuant to Section 12(g) of the Act: **Common Stock, \$.005 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act).

Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 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 Act).

Yes No

The aggregate market value of the Company's voting common stock held by non-affiliates of the registrant on March 30, 2007 (the last business day of the registrant's most recently completed second fiscal quarter), based upon the last sale price of the common stock on that date of \$32.39, was \$1,196,165,647. For purposes of this calculation, executive officers, directors and holders of 10% or more of the outstanding shares of the registrant's common stock are deemed to be affiliates of the registrant.

As of January 25, 2008, there were 35,675,884 shares of the registrant's common stock outstanding.

Explanatory Note

ACI Worldwide, Inc. is filing this Amendment to its Annual Report on Form 10-K for the fiscal year ended September 30, 2007 (Form 10-K), as filed with the U.S. Securities and Exchange Commission (SEC) on January 30, 2008. This Amendment is being filed solely to correct a classification error in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. We determined that there was a difference in the reporting of monthly license fees as disclosed in the earnings release for the quarter ended September 30, 2007 issued on December 17, 2007 and in the table in the Results of Operations section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Form 10-K. As clarification, the allocation of total licensee fee revenue to initial license fees and monthly license fees for the year ended September 30, 2007, was \$87.3 million and \$62.1 million, respectively, rather than \$95.7 million and \$53.8 million, respectively. The total software license fee revenue set forth in this Form 10-K/A for the fiscal year ended September 30, 2007 remains \$149.5 million as originally set forth in our Form 10-K.

This Form 10-K/A continues to speak as of the date of the Form 10-K and no attempt has been made to modify or update disclosures in the original Form 10-K except as noted above. This Form 10-K/A does not reflect events occurring after the filing of the Form 10-K or modify or update any related disclosures, and information not affected by this amendment is unchanged and reflects the disclosure made at the time of the filing of the Form 10-K with the SEC. In particular, any forward-looking statements included in this form 10-K/A represent management's view as of the filing date of the Form 10-K. Accordingly, this 10-K/A should be read in conjunction with the original filing of our Annual Report on Form 10-K.

As required by Rule 12b-15, under the Securities and Exchange Act of 1934, new certifications of our principal executive officer and principal financial officer are being filed and/or furnished as exhibits to this Form 10-K/A.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 its sales force 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.

On February 23, 2007, our Board of Directors approved a change in the Company's fiscal year from a September 30th fiscal year-end to a December 31st fiscal year-end, effective as of January 1, 2008 for the fiscal year ending December 31, 2008. In accordance with applicable SEC Rules, we intend to file a Transition Report on Form 10-Q for the transition period from October 1, 2007 to December 31, 2007. The Transition Report on Form 10-Q will be filed in lieu of the Company's Quarterly Report on Form 10-Q for the first quarter of the old fiscal year, which would have otherwise been due on February 11, 2008. The Transition Report will be required to be filed by February 11, 2008.

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 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 Microsoft 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 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, 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 fewer 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 has, 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,

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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 the United States dollar, 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. Also during fiscal 2007, we entered into two interest rate swaps with a commercial bank whereby we pay a fixed rate of 5.375% and 4.90% and receive a floating rate indexed to the 3-month LIBOR from the counterparty on a notional amount of \$75 million and \$50 million that is not yet outstanding under the credit facility, respectively. Fluctuations in interest 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 subsidiary in Ireland 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 September 30, 2007, we have incurred cash outlays of approximately \$0.1 million for the cash settlement of vested options that optionees were unable to exercise prior to the applicable expiration date due to the suspension of option exercises during the period for which we were not current with its filings with the SEC as a result of the late filing of this Annual Report.

On December 16, 2007, we entered into Alliance with IBM relating to joint marketing and optimization of our electronic payments application software and IBM's middleware and hardware platforms, tools and services. Under the terms of the Alliance, each party will retain ownership of its respective intellectual property and will independently determine product offering pricing to customers. In connection with the formation of the Alliance, we granted warrants to IBM to purchase up to 1,427,035 shares of our common stock at a price of \$27.50 per share and up to 1,427,035 shares of our common stock at a price of \$33.00 per share. The warrants are exercisable for five years.

Under the terms of the Alliance, on December 16, 2007, IBM paid us an initial payment of \$33.3 million which represented the estimated value of the warrants described above. The actual value of the warrants will be determined by an independent third-party appraiser as soon as practicable. We will receive partial reimbursement from IBM for expenditures incurred if certain technical enablement milestones and delivery dates related to the Alliance are met. IBM will pay us additional amounts upon meeting certain prescribed obligations and incentive payments in varying amounts upon IBM recognizing revenue from end-user customers as a result of the Alliance.

The stated initial term of the Alliance is five years, subject to extension for successive two year terms if not previously terminated by either party and subject to earlier termination for cause.

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The Company is in the process of assessing the accounting treatment for the cash proceeds of the Alliance.

Subsequent to September 30, 2007, the Company obtained certain extensions in connection with the delivery of financial statements and related matters under the financing arrangements for its bank debt. The Company's current extensions under the credit facilities expire on January 31, 2008

for its annual financial statements for the fiscal year ended September 30, 2007. The Company must deliver the financial statements for the transition period ended December 31, 2007 by no later than March 15, 2008.

Subsequent to September 30, 2007, the Company entered into a termination agreement with the lessor of its corporate aircraft. Under the terms of the agreement, the Company paid the lessor approximately \$1.3 million in full satisfaction of obligations to pay rent under the original lease agreement.

ACQUISITIONS

On July 29, 2005, we acquired the business of S2 Systems, Inc. (S2) through the acquisition of substantially all of its assets. S2 was a global provider of electronic payments and network connectivity software, and it primarily served financial services and retail customers, which were homogeneous and complementary to our target markets. In addition to its operations in the United States, S2 had a significant presence in the Middle East, Europe, Latin America, and the Asia/Pacific region, generating nearly half of its revenue from international markets.

On May 31, 2006, we acquired the outstanding shares of eps Electronic Payment Systems AG (eps AG), headquartered in Frankfurt, Germany. 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. eps AG, with operations in Germany, Romania, the United Kingdom and other European locations, offered 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. 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.

On September 29, 2006, we completed the acquisition of P&H Solutions, Inc. (P&H). P&H was a leading provider of enterprise business banking solutions and provides a complement to our existing revenue producing activities. 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, approximately \$73.3 million of which was financed by the Credit Agreement described in Note 6, Debt, in the Notes to Consolidated Financial Statements, with the remaining cash of \$60.4 million derived from the sale of investments. The acquisition of P&H has extended our wholesale payments solutions suite, provide us with an Application Software Provider (ASP)-based offering and allowed 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 markets trade finance and web-based cash management solutions, primarily to financial institutions in the Asia/Pacific region. Visual Web has sales and customer support office in Singapore, and a product development facility in Bangalore, India. 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.

On April 2, 2007, we acquired Stratasoft Sdn. Bhd. Stratasoft was 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 OCM 24 product within the Malaysian market since 1995. The aggregate purchase price of Stratasoft, including direct costs of the acquisition, was \$2.5 million, net of \$0.7 million of cash acquired.

ASSETS OF BUSINESSES TRANSFERRED UNDER CONTRACTUAL ARRANGEMENTS

On September 29, 2006, we completed the sale of the eCourier and Workpoint product lines

to PlaNet Group, Inc. We retained rights to distribute these products as components of our electronic payments solutions. See Note 16, Assets of Businesses Transferred Under Contractual Arrangements, in the Notes to Consolidated Financial Statements for further detail.

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.

We are undergoing a comprehensive review of the assumptions used and data required in computing our backlog estimates. This review is expected to be completed prior to the filing of the December 31, 2007 financial results. While the results of the review may vary, we do not currently expect a material adjustment to the previously reported backlog estimates. We also expect that any identified adjustment will not materially change the period to period change from previously reported estimates as any identified adjustment will most likely result in a proportional adjustment to previously reported estimates.

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 facilities management 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 United States 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.

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- Services engagements, other than facilities management, 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 our 60-month backlog estimate.

The following table sets forth our 60-month backlog estimate, by geographic region, as of September 30, 2007, September 30, 2006, and all interim periods (in millions):

| | September 30, 2007 | June 30, 2007 | March 31, 2007 | December 31, 2006 | September 30, 2006 |
|--------------|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Americas | \$ 660 | \$ 653 | \$ 643 | \$ 644 | \$ 671 |
| EMEA | 508 | 485 | 474 | 444 | 433 |
| Asia/Pacific | 134 | 132 | 127 | 125 | 122 |
| Total | \$ 1,302 | \$ 1,270 | \$ 1,244 | \$ 1,213 | \$ 1,226 |

Included in the September 30, 2007, June 30, 2007 and March 31, 2007 60-month backlog estimates is approximately \$7.2 million, \$7.8 million, and \$4.4 million, respectively, from the Visual Web acquisition. Included in the September 30, 2007 and June 30, 2007 60-month backlog estimates is approximately \$2.8 million and \$2.2 million, respectively, from the Stratasoft acquisition. These additional backlog estimate amounts relating to the Visual Web and Stratasoft acquisitions are predominantly included in the Asia/Pacific geographic region. Periods other than those specifically referred to above do not contain backlog estimates from the Visual Web or Stratasoft acquisitions as the respective acquisition had not closed at the time backlog estimates were computed.

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 estimate 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 September 30, 2007 and September 30, 2006 (in millions):

| | September 30, 2007 | | | September 30, 2006 | | |
|--------------|--------------------|---------------|--------|--------------------|---------------|--------|
| | Monthly Recurring | Non-Recurring | Total | Monthly Recurring | Non-Recurring | Total |
| Americas | \$ 124 | \$ 35 | \$ 159 | \$ 122 | \$ 32 | \$ 154 |
| EMEA | 74 | 64 | 138 | 67 | 39 | 106 |
| Asia/Pacific | 25 | 8 | 33 | 23 | 6 | 29 |
| Total | \$ 223 | \$ 107 | \$ 330 | \$ 212 | \$ 77 | \$ 289 |

Included in the September 30, 2007 12-month backlog estimates is approximately \$2.5 million from the Visual Web and Stratasoft acquisitions. These additional backlog estimate amounts relating to the Visual Web and Stratasoft acquisitions are predominantly included in the Asia/Pacific geographic region.

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 amounts 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

The following table sets forth certain financial data and the percentage of total revenues for the periods indicated (amounts in thousands):

| | 2007 | | Year Ended September 30, 2006 | | 2005 | |
|---------------------------------------|------------|--------------------|----------------------------------|--------------------|-----------|--------------------|
| | Amount | % of Total Revenue | Amount | % of Total Revenue | Amount | % of Total Revenue |
| Revenues: | | | | | | |
| Initial license fees (ILFs) | \$ 87,341 | 23.8% | \$ 107,347 | 30.9% | \$ 95,206 | 30.4% |
| Monthly license fees (MLFs) | 62,144 | 17.0% | 68,282 | 19.6% | 73,216 | 23.4% |
| Software license fees | 149,485 | 40.8% | 175,629 | 50.5% | 168,422 | 53.8% |
| Maintenance fees | 121,233 | 33.1% | 103,708 | 29.8% | 93,501 | 29.8% |
| Services | 95,500 | 26.1% | 68,565 | 19.7% | 51,314 | 16.4% |
| Total revenues | 366,218 | 100.0% | 347,902 | 100.0% | 313,237 | 100.0% |
| Expenses: | | | | | | |
| Cost of software license fees | 42,237 | 11.5% | 31,124 | 8.9% | 24,666 | 7.9% |
| Cost of maintenance and services | 98,605 | 26.9% | 79,622 | 22.9% | 60,337 | 19.3% |
| Research and development | 52,088 | 14.2% | 40,768 | 11.7% | 39,688 | 12.7% |
| Selling and marketing | 70,280 | 19.2% | 66,720 | 19.2% | 65,612 | 20.9% |
| General and administrative | 100,589 | 27.5% | 67,440 | 19.4% | 58,683 | 18.7% |
| Settlement of class action litigation | | 0.0% | 8,450 | 2.4% | | 0.0% |
| Total expenses | 363,799 | 99.3% | 294,124 | 84.5% | 248,986 | 79.5% |
| Operating income | 2,419 | 0.7% | 53,778 | 15.5% | 64,251 | 20.5% |
| Other income (expense): | | | | | | |
| Interest income | 4,082 | 1.1% | 7,825 | 2.2% | 3,843 | 1.2% |
| Interest expense | (6,644) | -1.8% | (185) | -0.1% | (510) | -0.2% |
| Other, net | (3,740) | -1.0% | (543) | -0.2% | (1,681) | -0.5% |
| Total other income (expense) | (6,302) | -1.7% | 7,097 | 2.0% | 1,652 | 0.5% |
| Income (loss) before income taxes | (3,883) | -1.1% | 60,875 | 17.5% | 65,903 | 21.0% |
| Income tax expense | 5,248 | 1.4% | 5,510 | 1.6% | 22,804 | 7.3% |
| Net income (loss) | \$ (9,131) | -2.5% | \$ 55,365 | 15.9% | \$ 43,099 | 13.8% |

2007 Compared to 2006**Revenues**

Total revenues for fiscal 2007 increased \$18.3 million, or 5.3%, as compared to fiscal 2006. The increase is the result of a \$17.5 million, or 16.9%, increase in maintenance fee revenues and a \$26.9 million, or 39.3%, increase in services revenues, partially offset by a \$26.1 million, or

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14.9% decrease in software license fee revenue. Included in fiscal 2007 and fiscal 2006 was approximately \$45.0 million and \$2.9 million, respectively, of revenue related to acquired businesses. Excluding the impact of the acquired businesses, total revenues decreased primarily as a result of a \$29.6 million, or 16.9%, decrease in software license fee revenues, partially offset by a \$5.8 million, or 5.6%, increase in maintenance fee revenue.

The majority of the fiscal 2007 revenue increase resulted from growth in the Americas, with an increase of \$15.1 million, or 8.3%, over fiscal 2006. Excluding the impact of the acquired

businesses, the Americas declined \$21.8 million, or 12.0%, compared to fiscal 2006. This was primarily the result of a decline in initial license fees as well as services revenues, which is a result of our practice to not pursue discounted paid up front licensing fee transactions. The EMEA and Asia/Pacific operating segments increased by \$2.0 million, or 1.5%, and \$1.2 million, or 3.4%, respectively, compared to fiscal 2006. Excluding the impact of acquired businesses, EMEA saw a slight decline of \$1.1 million, or 0.9%, primarily driven by a decline in license fees partially offset by an increase in services and maintenance revenue. This was also the case for the Asia/Pacific operating segment, which declined \$0.9 million, or 2.5%, when excluding acquired businesses.

The decrease in software license fee revenues for fiscal 2007 is primarily due to our decision to not pursue discounted paid up front deals, which lead to a decline in initial license fees. It was further impacted by the mix of sales and timing of revenue recognition. This change in sales mix and revenue recognition timing during the year has the corresponding effect of increasing backlog, and to the extent that customers were billed, increasing deferred revenue during the year.

The increase in maintenance fee revenues of \$5.8 million, excluding the impact of acquired businesses of \$11.7 million, during fiscal 2007, as compared to 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 slight increase in services revenues of \$0.1 million, excluding the impact of acquired businesses of \$26.8 million, for fiscal 2007, as compared to fiscal 2006, resulted primarily from steady activity in the EMEA and Asia/Pacific reportable operating segments.

Expenses

Total operating expenses for fiscal 2007 increased \$69.7 million, or 23.7%, as compared to fiscal 2006. Included in fiscal 2007 and fiscal 2006 was approximately \$63.5 million and \$4.0 million, respectively, of operating expenses related to acquired businesses. Additionally, there were approximately \$11.8 million of costs incurred in fiscal 2007, and \$0.3 million of costs incurred in fiscal 2006, 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 \$21.0 million, or 31.5%, increase in general and administrative costs, a \$2.9 million, or 3.8%, increase in maintenance and services costs, a \$0.2 million, or 0.8%, increase in the cost of software license fees, partially offset by a \$4.8 million, or 7.2%, decrease in selling and marketing costs, a \$0.8 million, or 2.1%, decrease in research and development (R&D) costs and \$8.5 million recorded in 2006 related to settlement of the class action litigation.

The increase in the cost of software license fees for fiscal 2007, as compared to fiscal 2006, excluding the impact of the acquired businesses, was a direct result of a change in product mix in EMEA and Asia/Pacific, partially offset by a decrease in the use of contractors in the Americas.

Cost of maintenance and services for fiscal 2007 increased as compared to fiscal 2006, excluding the impact of the acquired businesses, in line with the corresponding increase in services revenue in the International operating segments as well as a renewed focus on service activities.

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R&D costs for fiscal 2007 increased slightly as compared to fiscal 2006, excluding the impact of the acquired businesses, due to headcount investment in our Ireland operation. This was partially offset by declining headcount in developed countries concurrent with a shift to low cost geographies such as Romania and India. In addition, we reallocated resources from the R&D function into services activities.

The decrease in selling and marketing costs for fiscal 2007 as compared to 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 \$11.5 million of the increase in general and administrative costs during fiscal 2007, as compared to 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. Also included were \$2.6 million and \$0.6 million of restructuring and other employee related expense respectively. The remaining difference was driven by investment in infrastructure and the timing of audit professional fees.

Other Income and Expense

Interest income for fiscal 2007 decreased \$3.7 million, or 47.8%, as compared to fiscal 2006. The decrease in interest income is due to interest income of \$1.9 million on a refund of income taxes recorded in fiscal 2006 as well as a decrease in interest bearing assets in fiscal 2007 as compared to fiscal 2006 due to acquisition activity and the share repurchase program.

Interest expense for fiscal 2007 increased \$6.5 million, as compared to fiscal 2006. As discussed in Note 6, Debt in the Notes to Consolidated Financial Statements, we entered into a long term credit facility agreement with aggregate available borrowings of \$150 million on September 29, 2006 under which \$75 million was outstanding as of September 30, 2007.

Other income and expense consists of foreign currency gains and losses, and other non-operating items. Other expense for fiscal 2007 was \$3.7 million as compared to other expense for fiscal 2006 of \$0.5 million. Comparative changes in other income and expense amounts were attributable to fluctuating currency rates which impacted the amounts of foreign currency gains or losses recognized by us during the respective fiscal years and the loss on the change in fair value of our interest rate swaps. We realized \$1.9 million in net foreign currency losses during fiscal 2007 as compared with \$0.2 million in net losses during fiscal 2006 and a \$2.1 million loss on change in fair value of interest rate swaps in fiscal 2007. These losses were partially offset by a \$0.4 million gain under a contractual arrangement.

Income Taxes

The effective tax rates for fiscal 2007 and 2006 were approximately (135.2%) and 9.1%, respectively. Our effective tax rate each year varies from our federal statutory rate because we operate in multiple foreign countries where we apply their tax laws and rates which vary from those that we apply to the income we generate from our domestic operations. Our fiscal 2007 effective tax rate is negative due to a tax charge compared to a pretax loss, primarily related to reporting losses in countries in which we are unable to record a tax benefit and reporting profits in countries where we do record a tax charge. Our fiscal 2006 effective tax rate was lower than fiscal 2007 because we completed the federal tax audit for fiscal years 1997 through 2003 during fiscal 2006 and we also released a valuation reserve we had previously established on our foreign tax credit carryforwards. With the final settlement of the federal tax audit we released all accruals and tax contingencies for those years resulting in a 6.4% reduction in the effective tax rate. In fiscal 2006, we were able to utilize significant foreign tax credits and based on this fact, as well as our estimates of our ability to utilize the remaining foreign tax credits in future years we also released the valuation reserves related to our carryover general limitation foreign tax credits, resulting in a 20.7% decrease in the effective tax rate.

2006 Compared to 2005

Revenues

Total revenues for fiscal 2006 increased \$34.7 million, or 11.1%, as compared to fiscal 2005.

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The increase is the result of a \$7.2 million, or 4.3%, increase in software license fee revenues, a \$10.2 million, or 10.9%, increase in maintenance fee revenues, and a \$17.3 million, or 33.6%, increase in services revenues. Included in fiscal 2006 results, with no corresponding amount in fiscal 2005, was approximately \$2.9 million in eps AG related revenue.

The majority of the revenue increase resulted from revenue growth in international markets, primarily in EMEA, with an increase of \$29.2 million, or 28.4%, over 2005. Revenues from Asia/Pacific increased by \$5.5 million, or 18.5%.

The increases in software license fee revenues for 2006 are primarily due to the completion of several large implementation projects that resulted in software license fee revenue recognition and increased revenues for the Company's Retail Payment Engines and Cross Industry Solutions product lines.

The comparative increase in maintenance fee revenues during fiscal 2006 was primarily due to growth in the installed base of software products as well as maintenance fee revenues recognized from S2 products during the year. Maintenance fee revenue recognized during the year partly reflects the recognition of acquired deferred maintenance amounts which have been reduced to cost, plus a normal profit margin, as required under Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Issue No. 01-03, *Accounting in a Business Combination for Deferred Revenue of an Acquiree*. In addition, maintenance fee revenues of \$0.4 million were recognized from eps AG products during fiscal 2006.

The increases in services revenues for fiscal year 2006, as compared to fiscal 2005, resulted primarily from the recognition of previously deferred services revenues for several large projects which were completed during the year, as well as services revenues recognized from S2 products. In addition, services revenues of \$2.1 million were recognized from eps AG products during fiscal 2006. For some of our contracts, including certain S2 contracts, services revenues are being recognized to the extent direct and incremental costs are incurred until such time that project profitability can be estimated. This revenue recognition treatment negatively impacted the margins on services revenues for the year.

Expenses

Total operating expenses for fiscal 2006 increased \$45.1 million, or 18.1%, as compared to fiscal 2005. Included in operating expenses with no corresponding amounts in fiscal 2005, were approximately \$3.8 million in eps AG related expenses and \$6.3 million in stock-based compensation. The effect of changes in foreign currency exchange rates was a decrease to overall expenses by approximately \$1.9 million for fiscal 2006 as compared with fiscal 2005.

Cost of software license fees for fiscal 2006 increased by \$6.5 million, or 26.2%, as compared to fiscal 2005. The increase was due to additional personnel assigned to support our PRM, Smart Card and BASE24-eps products as well as costs associated with additional personnel assigned to support these products following the previously discussed reorganization. The increase also resulted in expenses from eps AG of \$0.7 million in fiscal 2006. In addition, stock-based compensation costs of \$0.5 million, resulting from the adoption of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment*, (SFAS No. 123(R)) in fiscal 2006, were recognized during the fiscal year.

Cost of maintenance and services for fiscal 2006 increased \$19.3 million, or 32.0%, as compared to 2005. The increase resulted from eps AG expenses of \$1.6 million incurred during the last two quarters of fiscal 2006, additional expenses incurred related to prior acquisitions, and the

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recognition of previously deferred compensation-related expenses resulting from the completion of several large projects during the year. For these projects, revenues previously recognized were being deferred until acceptance or first production use of the software, and the associated costs, including compensation-related expenses, were being deferred until the related services revenue was recognized.

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R&D costs increased \$1.1 million, or 2.7%, in fiscal 2006 as compared to fiscal 2005, primarily as a result of an increased number of personnel assigned to R&D activities.

Selling and marketing costs increased \$1.1 million, or 1.7%, in fiscal 2006 as compared to fiscal 2005. The increase was primarily due to higher sales commissions and other costs resulting from strong sales during the year. In addition, stock-based compensation costs of \$0.3 million, resulting from adoption of SFAS No. 123(R) in fiscal 2006, were recognized during the fiscal year.

General and administrative costs for fiscal 2006 increased \$8.8 million, or 14.9%, as compared to fiscal 2005. The increase was due to stock-based compensation costs of \$3.9 million recognized during the year resulting from the adoption of SFAS No. 123(R), severance costs related to two reorganizations that were effected during the year (see Note 8, *Corporate Restructuring and Other Reorganization Charges* in the Notes to Consolidated Financial Statements for further detail), increased costs resulting from globalization initiatives and additional compensation and benefit costs.

We also recorded an expense of \$8.5 million in connection with the announced settlement of the class action suit.

Other Income and Expense

Interest income for fiscal 2006 increased \$4.0 million, or 103.6%, as compared to fiscal 2005. The increase in interest income during fiscal 2006 as compared to fiscal 2005 is attributable to interest income of \$1.9 million on a refund of income taxes as well as increases in interest rates and global consolidation of excess cash amounts into higher yielding investments.

Interest expense for fiscal 2006 decreased \$0.3 million, or 63.7%, as compared to fiscal 2005. Scheduled payments of debt under financing agreements continued to be made during fiscal 2006, which decreased outstanding debt balances and corresponding interest expense. These financing agreements were repaid in full as of September 20, 2006. As discussed in Note 6, *Debt* in the Notes to Consolidated Financial Statements, we entered into a long term credit facility agreement with aggregate available borrowings of \$150 million under which \$75 million was outstanding as of September 30, 2006, which will increase interest expense in future years.

Other income and expense consists of foreign currency gains and losses, and other non-operating items. Other expense for fiscal 2006 was \$0.5 million as compared to other expense for fiscal 2005 of \$1.7 million. Comparative changes in other income and expense amounts were primarily attributable to fluctuating currency rates which impacted the amounts of foreign currency gains or losses recognized by us during the respective fiscal years. We realized \$0.2 million in net foreign currency losses during fiscal 2006 as compared with \$1.4 million in net losses during fiscal 2005.

Income Taxes

The effective tax rates for fiscal 2006 and 2005 were approximately 9.1% and 34.6%, respectively. Our effective tax rate each year varies from our federal statutory rate because we operate in multiple foreign countries where we apply their tax laws and rates which vary from those that we

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apply to the income we generate from our domestic operations. In fiscal 2006, our effective tax rate was lower than fiscal 2005 because we completed the federal tax audit for fiscal years 1997 through 2003 in that year and we released a valuation reserve we had previously established on our foreign tax credit carryforwards. With the final settlement of the federal tax audit we released all accruals and tax contingencies for those years resulting in a 6.4% reduction in the effective tax rate. In fiscal 2006, we were able to utilize significant foreign tax credits and based on this fact, as well as our estimates of our ability to utilize the remaining foreign tax credits in future years we also released the valuation reserves related to our carryover general limitation foreign tax credits, resulting in a 20.7% decrease in the effective tax rate.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2007, our principal sources of liquidity consisted of \$60.8 million in cash and cash equivalents and \$75.0 million of unused borrowings under our revolving credit facility. We had bank borrowings of \$75.0 million outstanding under our revolving credit facility as of September 30, 2007.

In connection with funding the purchase of P&H, as discussed in Note 6, Debt in the Notes to Consolidated Financial Statements, on September 29, 2006, we entered into a five year revolving credit facility with a syndicate of financial institutions, as lenders, providing for revolving loans and letters of credit in an aggregate principal amount not to exceed \$150 million. We have the option to increase the aggregate principal amount to \$200 million. The facility has a maturity date of September 29, 2011. Obligations under the facility are unsecured and uncollateralized, but are jointly and severally guaranteed by certain of our domestic subsidiaries.

The credit facility contains certain affirmative and negative covenants including certain financial measurements. The facility also provides for certain events of default. The facility does not contain any subjective acceleration features and does not have any required payment or principal reduction schedule and is included as a non-current liability in our consolidated balance sheet.

On August 27, 2007, we entered into an amendment to our credit agreement with which amended the definition of consolidated EBITDA, as it relates to the calculation for our debt covenants, to exclude certain non-recurring items, and to incorporate the change in our fiscal year end to a calendar year, effective January 1, 2008.

We have previously obtained certain extensions and may continue to seek additional extensions under our credit facilities. The extensions waived certain potential breaches of representations and covenants under our credit facilities and established extended deadlines for the delivery of certain financial reports during the period in which we were not current with our SEC reporting obligations.

We may select either a base rate loan or a LIBOR based loan. Base rate loans are computed at the national prime interest rate plus a margin ranging from 0% to 0.125%. LIBOR based loans are computed at the applicable LIBOR rate plus a margin ranging from 0.625% to 1.375%. The margins are dependent upon our total leverage ratio at the end of each quarter.

On October 5, 2006, we exercised our right to convert the rate on our initial borrowing to the LIBOR based option, thereby reducing the effective interest rate to 6.12%. The interest rate in effect at September 30, 2007 was 6.205%. There is also an unused commitment fee to be paid annually of 0.15% to 0.3% based on our leverage ratio. The initial principal borrowings of \$75 million were outstanding at September 30, 2007. There is \$75 million remaining under the credit facility for future borrowings. See Note 7, Derivative Instruments and Hedging Activities, in the Notes to Consolidated Financial Statements for further detail.

On July 18, 2007, we entered into an interest rate swap with a commercial bank whereby we pay a fixed rate of 5.375% and receive 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 August 16, 2007, we entered into an interest rate swap with a commercial bank whereby we pay a fixed rate of 4.90% and receive 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.

Since these interest rate swaps do not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivatives and Hedging Instruments*, changes in market interest rates will impact our

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earnings. See Item 8a, Quantitative and Qualitative Disclosures About Market Risk and Note 7, Derivative Instruments and Hedging Activities, in the Notes to the Consolidated Financial Statements.

In December 2004, we announced that our Board of Directors approved a stock repurchase program authorizing us, from time to time as market and business conditions warrant, to acquire up to \$80.0 million of our common stock. In May 2006, our board of directors approved an increase of \$30.0 million to the stock repurchase program, bringing the total of the approved plan to \$110.0 million. In March 2007, our board of directors approved an increase of \$100 million to our current repurchase authorization, bringing the total authorization to \$210 million. During fiscal 2007, we repurchased 1,558,648 shares of our common stock at an average price of \$29.63 per share under this stock repurchase program. Under the program to date, we have purchased approximately 4.2 million shares for approximately \$120 million. The maximum remaining dollar value of shares authorized for purchase under the stock repurchase program was approximately \$90 million as of September 30, 2007. Purchases will be 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.

We may also decide to use cash to acquire new products and services or enhance existing products and services through acquisitions of other companies, product lines, technologies and personnel, or through investments in other companies.

We incurred \$8.1 million in cash outlays during fiscal 2007, for the settlement of vested options that optionees were unable to exercise due to the suspension of option exercises during the period for which we were not current with our filings with the SEC and that would otherwise have expired. We recorded approximately \$4.7 million of compensation expense related to these settlements, reduced our additional paid-in capital balance by \$3.4 million and reduced our fully diluted equivalent shares outstanding.

Cash Flows

The following table sets forth summary cash flow data for the periods indicated. Please refer to this summary as you read our discussion of the sources and uses of cash in each year.

| | 2007 | Year Ended September 30, 2006 | 2005 |
|--|------------------------|----------------------------------|-----------|
| | (amounts in thousands) | | |
| Net cash provided by (used in): | | | |
| Operating activities | \$ 24,847 | \$ 60,701 | \$ 53,151 |
| Investing activities | (25,964) | (79,437) | (79,410) |
| Financing activities | (50,005) | 45,156 | (24,756) |

2007 compared to 2006

Net cash flows provided by operating activities in fiscal 2007 amounted to \$24.8 million as compared to net cash flows provided by operating activities of \$60.7 million during fiscal 2006. The comparative period decrease in net cash flows from operating activities of \$35.9 million was principally the result of the following items: a decrease of \$64.5 million from net income of \$55.4 million in fiscal 2006 to a net loss of \$9.1 million, the payment of \$10.6 million for P&H acquisition-related compensation charges in fiscal 2007, the payment of a class action litigation settlement of \$8.5 million during fiscal 2007, the receipt of a cash refund of \$10.9 million related to the

settlement of the IRS audit of tax years 1997 through 2003 during fiscal 2006, and a decrease in accruals for other expenses of \$16.6 million in fiscal 2007. These items were partially offset by increased cash collections on customer receivables and higher deferred revenues in fiscal 2007 as compared to fiscal 2006 of \$45.4 million and increased non-cash expenses of \$29.8 million, such as depreciation, amortization and deferred taxes. The 2006 and 2007 acquisitions have increased accrued expenses due to the volume of expenses and increased depreciation and amortization due to the intangibles and fixed assets related to the acquisitions.

Net cash flows used in investing activities totaled \$26.0 million in fiscal 2007 as compared to \$79.4 million used in investing activities during fiscal 2006. During fiscal 2007, we used cash of \$6.1 million to pay costs related to the second closing of the purchase of eps AG, \$0.7 million related to the P&H acquisition, \$8.3 million for the acquisition of Visual Web, \$2.5 million for the acquisition of Stratasoft, and other direct acquisition costs. These uses of cash flow were partially offset in fiscal 2007 by \$0.5 million in proceeds from an asset transfer. We also used cash of \$8.9 million to purchase software, property and equipment. During fiscal 2006, we used cash of \$50.9 million to increase our holding of marketable securities and \$6.0 million to purchase software, property and equipment. We also used cash of \$13.0 million for the acquisition of eps AG and \$133.3 million for the acquisition of P&H. These uses of cash flow were partially offset in fiscal 2006 by \$123.8 million provided by the sale of marketable securities.

Net cash flows used in financing activities totaled \$50.0 million in fiscal 2007 as compared to net cash flows provided of \$45.2 million during fiscal 2006. In fiscal 2007 and fiscal 2006, we used cash of \$46.7 million and \$39.7 million, respectively, to purchase shares of our common stock under the stock repurchase program. We also made payments to third-party financial institutions, primarily related to debt and capital leases, totaling \$3.4 million and \$3.7 million during fiscal 2007 and 2006, respectively. In fiscal 2007 and 2006, we received proceeds of \$0.1 million and \$14.0 million, including corresponding excess tax benefits, from the exercises of stock options, respectively. In fiscal 2006, we received proceeds of \$75.0 million from borrowings under our revolving credit facility to finance the purchase of P&H.

We realized a \$1.8 million increase in cash during fiscal 2007 and a \$0.04 million increase in cash during fiscal 2006 related to foreign exchange rate variances.

2006 compared to 2005

Net cash flows provided by operating activities in fiscal 2006 and 2005 were \$60.7 million and \$53.2 million, respectively. The increase in operating cash flows in fiscal 2006 as compared to fiscal 2005 resulted primarily from increased net income along with the receipt of a cash refund of \$10.9 million, including interest, in February 2006 related to the settlement of the IRS audit of tax years 1997 through 2003. This was offset by changes in billed and accrued receivables, deferred revenues, accounts payable, accrued employee compensation, and other assets.

Net cash flows used in investing activities in fiscal 2006 and 2005 were \$79.4 million and \$79.4 million, respectively. In fiscal 2006, we generated cash of \$72.8 million by decreasing our net holdings of marketable securities, and used cash of \$146.3 million in the acquisition of businesses (eps AG and P&H), and \$5.9 million to purchase software, property and equipment. In fiscal 2005, we used cash to increase our net holdings of marketable securities by \$37.4 million, used \$36.6 million to acquire the business of S2 (including \$35.7 million paid to owners of S2 as well as acquisition-related expenses), and purchased \$5.4 million of software, property and equipment.

Our net cash flows provided by (used in) financing activities were \$45.2 million and (\$24.8) million in fiscal 2006 and 2005, respectively. In fiscal 2006, we incurred \$75.0 million of debt under our revolving credit facility in connection with the P&H acquisition, used cash of \$39.7 million to purchase shares of our common stock under our stock repurchase program, made payments to third-party financial institutions for debt and capital lease payments totaling \$3.7 million, and received proceeds of \$14.0 million, including corresponding excess tax benefits, from exercises of stock options. In fiscal 2005, we used cash of \$33.0 million to purchase shares of our common stock under our stock repurchase program, made scheduled payments to third-party financial institutions totaling \$7.3 million, and received proceeds of \$14.1 million from exercises of stock options.

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We also realized an increase in cash of \$0.03 million and \$0.5 million during fiscal 2006 and 2005, respectively, due to foreign exchange rate variances.

We believe that our existing sources of liquidity, including cash on hand and cash provided by operating activities, will satisfy our projected liquidity requirements for the foreseeable future.

Contractual Obligations and Commercial Commitments

We lease office space, equipment and the corporate aircraft under operating leases that run through August 2028, and also lease certain property under capital lease agreements that expire in various years through 2010. Additionally, we have entered into a long term credit facility agreement that expires in 2011. Contractual obligations as of September 30, 2007 are as follows (in thousands):

| | Total | Payments due by Period | | | |
|--|------------|------------------------|-----------|-----------|----------------------|
| | | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Contractual Obligations | | | | | |
| Operating lease obligations (1) | \$ 87,787 | \$ 13,169 | \$ 19,230 | \$ 13,353 | \$ 42,035 |
| Capital leases | 4,105 | 2,511 | 1,590 | 4 | |
| Long-term credit facility | 75,000 | | | 75,000 | |
| Long-term credit facility interest (2) | 18,616 | 4,654 | 9,308 | 4,654 | |
| Total | \$ 185,508 | \$ 20,334 | \$ 30,128 | \$ 93,011 | \$ 42,035 |

(1) Subsequent to September 30, 2007, we have terminated the lease on the corporate aircraft.

(2) Based upon the interest rate in effect at September 30, 2007, of 6.205%.

The following table discloses aggregate information about our derivative financial instruments as of September 30, 2007, the source of fair value of these instruments and their maturities.

| Source of fair value | Total | Fair Value of Contracts at Period-End | | | |
|--------------------------------------|----------|---------------------------------------|-----------|-----------|----------------------|
| | | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Derivative financial instruments (1) | \$ 2,077 | \$ 2 | \$ 1,975 | \$ 100 | \$ |
| Total | \$ 2,077 | \$ 2 | \$ 1,975 | \$ 100 | \$ |

(1) Fair value of interest rate swaps at September 30, 2007 was provided by the counter-party to the underlying contract.

Off-Balance Sheet Arrangements

We do not have any obligations that meet the definition of an off-balance sheet arrangement and that have or are reasonably likely to have a material effect on our consolidated financial statements.

Critical Accounting Estimates

The preparation of the consolidated financial statements requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe to be proper and reasonable under the circumstances. We continually evaluate the appropriateness of estimates and assumptions used in the preparation of our consolidated financial statements. Actual results could differ from those estimates.

The following key accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements. See Note 1, Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements for a further discussion of revenue recognition and other significant accounting policies.

Revenue Recognition

For software license arrangements for which services rendered are not considered essential to the functionality of the software, we recognize 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, because vendor-specific objective evidence of fair value does not exist for the license element, we use the residual method to determine the amount of revenue to be allocated to the license element. Under the residual method, the fair value of all undelivered elements, such as post contract customer support 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. For software license arrangements in which we have concluded that collectibility issues may exist, revenue is recognized as cash is collected, provided all other conditions for revenue recognition have been met. In making the determination of collectibility, we consider the creditworthiness of the customer, economic conditions in the customer's industry and geographic location, and general economic conditions.

Our sales focus continues to shift from our more-established products to more complex arrangements involving multiple products inclusive of our BASE24-eps product and less-established (collectively referred to as newer) products. As a result of this shift to newer products and more complex, multiple product arrangements, absent other factors, we initially experience an increase in deferred revenue and a corresponding decrease in current period revenue due to differences in the timing of revenue recognition for the respective products. Revenues from newer products are typically recognized upon acceptance or first production use by the customer whereas revenues from mature products, such as BASE24, are generally recognized upon delivery of the product, provided all other conditions for revenue recognition have been met. For those arrangements where revenues are being deferred and we determine that related direct and incremental costs are recoverable, such costs are deferred and subsequently expensed as the revenues are recognized. Newer products are continually evaluated by our management and product development personnel to determine when any such product meets specific internally defined product maturity criteria that would support its classification as a mature product. Evaluation criteria used in making this determination include successful demonstration of product features and functionality; standardization of sale, installation, and support functions; and customer acceptance at multiple production site installations, among others. A change in product classification (from newer to mature) would allow us to recognize revenues from new sales of the product upon delivery of the product rather than upon acceptance or first production use by the customer, resulting in earlier recognition of revenues from sales of that product, as well as related costs, provided all other revenue recognition criteria have been met. BASE24-eps was reclassified as a mature product as of October 1, 2006.

When a software license arrangement includes services to provide significant modification or customization of software, those services are not considered to be separable from the software. Accounting for such services delivered over time is referred to as contract accounting. Under contract accounting, we generally use the percentage-of-completion method. Under the percentage-of-completion method, we record 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. Estimated total labor hours for each contract are based on the project scope, complexity, skill level requirements, and similarities with other projects of similar size and scope. For those contracts subject to contract accounting, estimates of total revenue and profitability under the contract consider amounts due under extended payment terms. For arrangements where we believe it is reasonably assured that no loss will be incurred under the arrangement and fair value for maintenance services does not exist, we use a zero margin approach of applying percentage-of-completion accounting until software customization services are completed. We exclude revenues due on extended payment terms from our current percentage-of-completion computation until such time that collection of the fees becomes probable.

We 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

arrangements for revenue recognition purposes. Judgment is required when evaluating the facts and circumstances related to each situation in order to reach appropriate conclusions regarding whether such arrangements are related or separate. Those conclusions can impact the timing of revenue recognition related to those arrangements.

Allowance for Doubtful Accounts

We maintain a general allowance for doubtful accounts based on our historical experience, along with additional customer-specific allowances. We regularly monitor credit risk exposures in our accounts receivable. In estimating the necessary level of our allowance for doubtful accounts, management considers the aging of our accounts receivable, the creditworthiness of our customers, economic conditions within the customer's industry, and general economic conditions, among other factors. Should any of these factors change, the estimates made by management would also change, which in turn would impact the level of our future provision for doubtful accounts. Specifically, if the financial condition of our customers were to deteriorate, affecting their ability to make payments, additional customer-specific provisions for doubtful accounts may be required. Also, should deterioration occur in general economic conditions, or within a particular industry or region in which we have a number of customers, additional provisions for doubtful accounts may be recorded to reserve for potential future losses. Any such additional provisions would reduce operating income in the periods in which they were recorded.

Intangible Assets and Goodwill

Our business acquisitions typically result in the recording of intangible assets, and the recorded values of those assets may become impaired in the future. As of September 30, 2007 and 2006, our intangible assets, net of accumulated amortization, were \$39.7 million and \$42.4 million, respectively. The determination of the value of such intangible assets requires management to make estimates and assumptions that affect the consolidated financial statements. We assess potential impairments to intangible assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Judgments regarding the existence of impairment indicators and future cash flows related to intangible assets are based on operational performance of our businesses, market conditions and other factors. Although there are inherent uncertainties in this assessment process, the estimates and assumptions used, including estimates of future cash flows, volumes, market penetration and discount rates, are consistent with our internal planning. If these estimates or their related assumptions change in the future, we may be required to record an impairment charge on all or a portion of our intangible assets. Furthermore, we cannot predict the occurrence of future impairment-triggering events nor the impact such events might have on our reported asset values. Future events could cause us to conclude that impairment indicators exist and that intangible assets associated with acquired businesses is impaired. Any resulting impairment loss could have an adverse impact on our results of operations.

Other intangible assets are amortized using the straight-line method over periods ranging from 18 months to 12 years.

As of September 30, 2007 and 2006, our goodwill was \$205.7 million and \$191.5 million, respectively. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), we assess goodwill for impairment at least annually or when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. During this assessment, which is completed as of the end of the fiscal year, management relies on a number of factors, including operating results, business plans and anticipated future cash flows.

Stock-Based Compensation

Effective October 1, 2005 we began recording compensation expense associated with stock-based awards in accordance with SFAS No. 123(R). We adopted the modified prospective transition method provided for under SFAS No. 123(R), and consequently have not retroactively adjusted results from prior periods. Under this transition method, compensation cost associated

with stock-based awards for fiscal years 2007 and 2006 includes (1) amortization related to the remaining unvested portion of stock-based awards granted prior to September 30, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and (2) amortization related to stock-based awards granted subsequent to September 30, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R).

Under the provisions of SFAS No. 123(R), stock-based compensation cost for stock option awards is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes option-pricing model and is recognized as expense ratably over the requisite service period. We recognize stock-based compensation costs for only those shares that are expected to vest. The impact of forfeitures that may occur prior to vesting is estimated and considered in the amount of expense recognized. Forfeiture estimates will be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Black-Scholes option-pricing model requires various highly judgmental assumptions including volatility and expected option life. If any of the assumptions used in the Black-Scholes model change significantly, stock-based compensation expense may differ materially for future awards from that recorded for existing awards.

We also have stock options outstanding that vest upon attainment by the Company of certain market conditions. In order to determine the grant date fair value of these stock options that vest based on the achievement of certain market conditions, a Monte Carlo simulation model is used to estimate (i) the probability that the performance goal will be achieved and (ii) the length of time required to attain the target market price.

Long term incentive program performance share awards (LTIP Performance Shares) were issued in fiscal 2007, fiscal 2006 and fiscal 2005. These awards are earned based on the achievement over a specified period of performance goals related to certain performance indicators. In order to determine compensation expense to be recorded for these LTIP Performance Shares, each quarter management evaluates the probability that the target performance goals will be achieved, if at all, and the anticipated level of attainment.

The assumptions utilized in the Black-Scholes option-pricing model as well as the description of the plans the stock-based awards are granted under are described in further detail in Note 13, Stock-Based Compensation Plans , in the Notes to Consolidated Financial Statements.

Accounting for Income Taxes

Accounting for income taxes requires significant judgments in the development of estimates used in income tax calculations. Such judgments include, but are not limited to, the likelihood we would realize the benefits of net operating loss carryforwards and/or foreign tax credit carryforwards, the adequacy of valuation allowances, and the rates used to measure transactions with foreign subsidiaries. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which the Company operates. The judgments and estimates used are subject to challenge by domestic and foreign taxing authorities. It is possible that either domestic or foreign taxing authorities could challenge those judgments and estimates and draw conclusions that would cause us to incur tax liabilities in excess of, or realize benefits less than, those currently recorded. In addition, changes in the geographical mix or estimated amount of annual pretax income could impact our overall effective tax rate.

To the extent recovery of deferred tax assets is not likely, we record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Although we have considered future taxable income along with prudent and feasible tax planning strategies in assessing the need for a valuation allowance, if we should determine that we would not be able to realize all or part of our deferred tax assets in the future, an adjustment to deferred tax assets would be charged to income in the period any such determination was made. Likewise, in the event we are able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to deferred tax assets would increase income in the period any such determination was made.

Recently Issued Accounting Standards

In June 2005, the FASB issued FASB Staff Position No. FAS 143-1 (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 our fiscal 2006 or the date that an EU member country in which we 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 our financial position, results of operations or cash flows and we do 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. We do not expect that the adoption of EITF No. 06-2 will have a material effect on our consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 describes a recognition threshold and measurement attribute for the recognition and measurement of tax positions taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Therefore, FIN 48 will be effective beginning October 1, 2007. The cumulative effect of adopting FIN 48 is required to be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity) for that fiscal year, presented separately. We are currently evaluating the requirements and to date have identified tax contingencies for which we expect to record a cumulative effect adjustment of approximately \$3.0 million upon the adoption of FIN 48.

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 fiscal years beginning after November 15, 2007, although early adoption is permitted. We are currently assessing the potential effect, if any, of SFAS No. 157 on our 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 fiscal years beginning after November 15, 2007. 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. We are currently evaluating the impact, if any, of SFAS 159 on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)), which replaces FAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008. We will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We are currently evaluating the impact, if any, the adoption of SFAS 160 will have on our consolidated financial statements.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(b) **Exhibits.** The following exhibit index lists exhibits filed as part or furnished as part of this Form 10-K/A:

| Exhibit No. | Description |
|-------------|--|
| 31.01 | Certification of Principal Executive Officer pursuant to S.E.C. Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 31.02 | Certification of Principal Financial Officer pursuant to S.E.C. Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 32.01 | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |
| 32.02 | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACI WORLDWIDE, INC.
(Registrant)

Date: March 4, 2008

By:

/s/ Scott W. Behrens
Scott W. Behrens
Vice President, Corporate
Controller, and Chief Accounting Officer
(Principal Financial Officer)

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