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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2007
Commission File Number 0-25346

ACI WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**47-0772104** (I.R.S. Employer Identification No.)
120 Broadway, Suite 3350 **New York, New York 10271** (Address of principal executive offices, including zip code)	**(646) 348-6700** (Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None
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 o No ý

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 o No ý

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 ý No o

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. ý

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 ý Accelerated filer o Non-accelerated filer o

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

Yes o No ý

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.

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	2
Item 1A.	Risk Factors	15
Item 1B.	Unresolved Staff Comments	23
Item 2.	Properties	24
Item 3.	Legal Proceedings	24
Item 4.	Submission of Matters to a Vote of Security Holders	25
	PART II	
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters	26
Item 6.	Selected Financial Data	27
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	50
Item 8.	Financial Statements and Supplementary Data	50
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	50
Item 9A.	Controls and Procedures	50
Item 9B.	Other Information	54
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	55
Item 11.	Executive Compensation	59
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	94
Item 13.	Certain Relationships and Related Transactions, and Directors Independence	96
Item 14.	Principal Accountant Fees and Services	97
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules	99
Signatures		155

Forward-Looking Statements

This report contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Generally, forward-looking statements do not relate strictly to historical or current facts, and include words or phrases such as "management anticipates," "we believe," "we anticipate," "we expect," "we plan," "we will," "we are well positioned," and words and phrases of similar impact, and include, but are not limited to, statements regarding future operations, business strategy, business environment and key trends, as well as statements related to expected financial and other benefits from our recent acquisition of S2 Systems, Inc., eps Electronic Payment Systems AG, P&H Solutions, Inc., Visual Web Solutions, Inc., and Stratasoft Sdn Bhd and those related to our organizational restructuring activities. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any or all of the forward-looking statements in this document may turn out to be incorrect. They may be based on inaccurate assumptions or may not account for known or unknown risks and uncertainties. Consequently, no forward-looking statement is guaranteed, and our actual future results may vary materially from the results expressed or implied in our forward-looking statements. The cautionary statements in this report expressly qualify all of our forward-looking statements. In addition, we are not obligated, and do not intend, to update any of our forward-looking statements at any time unless an update is required by applicable securities laws. Factors that could cause actual results to differ from those expressed or implied in the forward-looking statements include, but are not limited to; those discussed in Item 1A in the section entitled "Risk Factors Factors That May Affect Our Future Results or the Market Price of Our Common Stock."

Trademarks and Service Marks

ACI, the ACI logo, BASE24, ON/2, OpeN/2, ENGUARD, Network Express, PaymentWare and CO-ach, among others, are registered trademarks and/or registered service marks of ACI Worldwide, Inc., or one of its subsidiaries, in the United States and/or other countries. BASE24-eps, ACI Retail Commerce Server, NET24, Commerce Gateway, Smart Chip Manager, Proactive Risk Manager, PRM, ICE, WebGate, SafeTGate, DataWise, ACI Wholesale Payment System, ACI Money Transfer System or MTS, ACI Enterprise Banker, ACI Payments Manager, ACI Card Management System, ACI Dispute Management System, and WPS, among others, have pending registrations or are common-law trademarks and/or service marks of ACI Worldwide, Inc., or one of its subsidiaries, in the United States and/or other countries. Other parties' marks referred to in this report are the property of their respective owners.

PART I

ITEM 1. BUSINESS

General

ACI Worldwide, Inc., a Delaware corporation, and our subsidiaries (collectively referred to as "ACI", "ACI Worldwide", the "Company," "we," "us" or "our") 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. These products and services are used principally by financial institutions, retailers and electronic payment processors, both in domestic and international markets. Most of our products are sold and supported through distribution networks covering three geographic regions the Americas, Europe/Middle East/Africa ("EMEA") and Asia/Pacific. Each distribution network has its own sales force that it supplements with independent reseller and/or distributor networks. Our products are marketed under the ACI Worldwide brand.

The electronic payments market is comprised of financial institutions, retailers, third-party electronic payment processors, payment associations, switch interchanges and a wide range of transaction-generating endpoints, including automated teller machines ("ATM"), retail merchant locations, bank branches, mobile phones, corporations and Internet commerce sites. The authentication, authorization, switching, settlement and reconciliation of electronic payments is a complex activity due to the large number of locations and variety of sources from which transactions can be generated, the large number of participants in the market, high transaction volumes, geographically dispersed networks, differing types of authorization, and varied reporting requirements. These activities are typically performed online and are often conducted 24 hours a day, seven days a week.

ACI Worldwide, Inc. was formed as a Delaware corporation in November 1993 under the name ACI Holding, Inc. and is largely the successor to Applied Communications, Inc. and Applied Communications Inc. Limited, which we acquired from Tandem Computers Incorporated on December 31, 1993.

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

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.

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 United States operations, S2 had a significant presence in the Middle East, Europe, Latin America and the Asia/Pacific regions, 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"). The aggregate purchase price for eps AG was $30.4 million, which was comprised of cash payments of $19.1 million, 330,827 shares of common stock valued at $11.1 million, and direct costs of the acquisition. eps AG, with operations in Germany, Romania, the United Kingdom and other European locations, offered electronic payment and complementary solutions focused largely in the German market. The acquisition of eps AG occurred in two closings. The initial closing occurred on May 31, 2006, and the second closing occurred on October 31, 2006. Cash consideration paid at the initial closing totaled $13.0 million, net of $3.1 million of cash acquired and the remaining cash consideration of $6.1 million was paid on October 31, 2006. All shares of the Company's common stock issued as consideration for the eps AG acquisition were issued at the initial closing. We accounted for the acquisition of eps AG in its entirety as of May 31, 2006, and recorded a liability, included in accrued and other liabilities at September 30, 2006, in the amount of $6.1 million, for the remaining cash consideration that was paid on October 31, 2006. We accounted for this as a delayed delivery of consideration as the price was fixed and not subject to change, with complete decision-making and control of eps AG held by us as of the date of the initial closing.

Under the terms of the acquisition, the parties established a cash escrow arrangement in which approximately $1.0 million of the cash consideration paid at the initial closing was held in escrow as security for a potential contingent obligation. We distributed the escrow in October 2006 in accordance with the terms of the escrow arrangement as the contingent liability paid by the Company was recovered from a third party. Additionally, certain of the sellers of eps AG have committed to certain indemnification obligations as part of the sale of eps AG. Those obligations are secured by the shares of common stock issued to the sellers pursuant to the eps AG acquisition to the degree such shares are restricted at the time such an indemnification obligation is triggered, if at all, the likelihood of which is deemed remote.

On August 28, 2006, we entered into an Agreement and Plan of Merger with P&H Solutions, Inc. ("P&H") under the terms of which P&H became our wholly owned subsidiary. P&H was a provider of web-based enterprise business banking solutions to financial institutions. The acquisition of P&H closed on September 29, 2006. The aggregate purchase price for P&H, including direct costs of the acquisition, was $133.7 million, net of $20.2 million of cash acquired. Under the terms of the acquisition, the parties established a cash escrow arrangement in which $11.7 million of the cash consideration paid at closing was held in escrow as security for tax and other contingencies. During fiscal 2007, we adjusted the initial purchase price allocation resulting in additional goodwill of $0.4 million, net due to tax adjustments and recovery of bad debt reserves.

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

The aggregate purchase price of Visual Web, including direct costs of the acquisition, was $8.3 million, net of $1.1 million of cash acquired. Under the terms of the acquisition, the parties established a cash escrow arrangement in which $1.1 million of the cash consideration paid at closing is held in escrow as security for tax and other contingencies.

On April 2, 2007, we acquired Stratasoft Sdn Bhd ("Stratasoft"), a provider of electronic payment solutions in Malaysia. This acquisition compliments our strategy to move to a direct sales model in selected markets in Asia. The aggregate purchase price of Stratasoft, including direct costs of the acquisition, was $2.5 million, net of $0.7 million of cash acquired. We will pay an additional aggregate amount of up to $1.2 million (subject to foreign currency fluctuations) to the sellers if Stratasoft achieves certain financial targets set forth in the purchase agreement for the periods ending December 31, 2007 and December 31, 2008. Under the terms of the acquisition, the parties established a cash escrow arrangement in which $0.5 million of the cash consideration paid at closing is held in escrow as security for tax and other contingencies.

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 have 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.

Products

ACI Worldwide software products perform a wide range of functions designed to facilitate electronic payments. Generally, our products address three primary market segments:

- Retail banking, including debit and credit card issuers
- Wholesale banking, including corporate cash management and treasury management operations
- Retailers

In addition, we market our solutions to third-party electronic payment processors, who serve all three of the above market segments. We also offer solutions that are not industry-specific, and are used by customers in a wide range of industries to address needs for systems connectivity, data synchronization, testing and simulation and systems monitoring.

We offer five primary software product lines:

- Retail Payment Engines
- Risk Management
- Payments Management
- Wholesale Payments
- Cross Industry Solutions

An overview of major software products within these software product lines follows:

Retail Payment Engines

Generally, our Retail Payment Engines are designed to route electronic payment transactions from transaction generators to the acquiring institutions so that they can be authorized for payment. The software often interfaces with regional or national switches to access the account-holding financial institution or card issuer for approval or denial of the transactions (authorization). The software returns messages to the original transaction generator (e.g. an ATM), thereby completing the transactions. Depending on how the software is configured, it can perform all of the functions necessary to authenticate, authorize, route and settle an electronic payment transaction, or it can interact with other systems to ensure that these functions are performed. Electronic payments software may be required to interact with dozens of devices, switch interchanges and communication protocols around the world. We currently offer a range of retail payment engine solutions, as follows:

- **BASE24.** BASE24 is an integrated family of software products marketed to customers operating electronic payment networks in the retail banking and retail industries. The modular architecture of the product enables customers to select the application and system components that are required to operate their networks. BASE24 offers a broad range of features and functions for electronic payment processing. BASE24 allows customers to adapt to changing network needs by supporting over 40 different types of ATM and point of sale ("POS") terminals, over 50 interchange interfaces, and various authentication, authorization and reporting options. A substantial portion of ACI Worldwide's revenues are derived from licensing the BASE24 family of products and providing related services and maintenance.
  The BASE24 product line operates exclusively on Hewlett-Packard Company ("HP") NonStop servers. The HP NonStop parallel-processing environment offers fault-tolerance, linear expandability and distributed processing capabilities. The combination of features offered by

BASE24 and the HP NonStop technology are important characteristics in high volume, 24-hour per day electronic payment systems.

BASE24-eps (formerly called BASE24-es). BASE24-eps is an integrated electronic payments processing product that supports similar features as BASE24, but uses a more modern set of technologies and architecture. BASE24-eps uses an object-based architecture and languages such as C++ and Java to offer a more flexible, open architecture for the processing of a wide range of electronic payment transactions. BASE24-eps also uses a scripting language to improve overall transaction processing flexibility and improve time to market for new services, reducing the need for traditional systems modifications. BASE24-eps is licensed as a standalone electronic payments solution for financial institutions, retailers and electronic payment processors, and it represents the future platform to which current BASE24, ON/2, OpeN/2, and AS/X customers are expected to migrate over time. BASE24-eps, which operates on International Business Machines Corporation ("IBM") zSeries, IBM pSeries, HP NonStop, HP-UX and Sun Solaris servers, provides flexible integration points to other applications and data within enterprises to support 24-hour per day access to money, services and information.

ACI Retail Commerce Server (formerly called WINPAY24). Retail Commerce Server is an integrated suite of electronic payments products that facilitate a broad range of capabilities, specifically focused on retailers. These capabilities include debit and credit card processing, automated clearing house ("ACH") processing, electronic benefits transfer, card issuance and management, check authorization, customer loyalty programs and returned check collection. The Retail Commerce Server product line operates on open systems technologies such as Microsoft Windows, UNIX and Linux, with most of the current installations deployed on the Microsoft Windows platform.

NET24. NET24 is a message-oriented middleware product that acts as the layer of software that manages the interface between application software and computer operating systems and helps customers perform network and legacy systems integration projects. The NET24 product operates exclusively on the HP NonStop platform, and represents the middleware product on which BASE24 and BASE24-eps operate when deployed on HP NonStop servers. NET24 supports process management, network communications, systems configuration and management, and asynchronous messaging.

ON/2. ON/2, a product acquired in the S2 asset acquisition, is an integrated electronic payments processing system, exclusively designed for the Stratus VOS operating environment. It authenticates, authorizes, routes and switches transactions generated at ATM's and merchant POS sites.

OpeN/2. OpeN/2, a product acquired in the S2 asset acquisition, is an integrated electronic payments processing system, designed for open-systems environments such as Microsoft Windows, UNIX and Linux. It offers a wide range of electronic payments processing capabilities for financial institutions, retailers and electronic payment processors.

AS/X. AS/X, a product acquired in the eps AG acquisition, is an integrated electronic payments processing system designed for open-systems environments such as UNIX. It supports a wide range of electronic payments processing capabilities for financial institutions and electronic payment processors in Germany and Switzerland.

During fiscal 2007, 2006 and 2005, approximately 49%, 57% and 57%, respectively, of our total revenues were derived from licensing the BASE24 product line, which revenue amounts do not include revenue associated with licensing the BASE24-eps product.

Risk Management

ACI Proactive Risk Manager ("PRM"). PRM is a neural network-based fraud detection system designed to help card issuers, merchants, merchant acquirers and financial institutions combat fraud schemes. The system combines the pattern recognition capability of neural-network transaction scoring with custom risk models of expert rules-based strategies and advanced client/server account management software. PRM operates on IBM zSeries, HP NonStop, Sun Solaris and Microsoft Windows servers. There are six editions of PRM, each of which is tailored for specific industry needs. The six editions are debit, credit, merchant, private label, money laundering detection and enterprise.

Payments Management

ACI Payments Management Solutions. Payments Management solutions are integrated products bringing value-added solutions to information captured during online processing. The suite of products includes management of dispute processing, card management and card statement products, merchant accounting applications, and settlement and reconciliation solutions for online and offline payment processing. The suite also includes a transaction warehouse product that accumulates and stores e-payment transaction information for subsequent transaction inquiry via browser-based presentation allowing transaction monitoring, alerting and executive analysis. These products operate on IBM zSeries, IBM pSeries, HP NonStop, Sun Solaris and Microsoft Windows servers.

ACI Payments Manager ("PM"). PM is an integrated, modular software solution that automates the processing, settlement and reconciliation of electronic transactions, as well as provides plastic card issuance and account management. PM's primary focus is to enable efficient back-office management through cost reductions and streamlined daily operations. The solution accesses a central transaction database that can be updated in batch or near-real time from the payment engine. PM integrates all transaction and processing data for transaction analysis, settlement processing, and card account and customer data. Application functions are accessed via the ACI desktop environment, an integrated graphical presentation and development tool.

ACI Card Management System ("CMS"). CMS is a complete plastic card system for issuing cards, maintaining account information, tracking card usage and providing customer service. It supports multiple account types and allows online display and modification of pertinent account information. It can be linked with a card authorization system for authorizing debit transactions from ATM and POS devices on the host system. Optionally, CMS can also be linked to a front-end processor for purposes of forwarding file maintenance activity and accepting financial transaction activity.

ACI Smart Chip Manager ("SCM"). SCM supports the deployment of stored-value and other chip card applications used at smart card-enabled devices. The solution facilitates authorization of funds transfers from existing accounts to cards. It also leverages chip technology to enhance debit/credit card authentication and security. SCM supports Europay/Mastercard/VISA ("EMV") standards for debit and credit card processing, and manages the complete lifecycle of the deployment of multi-function chip cards. In addition, SCM has been deployed in government identification environments, providing the core operating environment for multi-function electronic identification cards.

ACI Dispute Management System ("DMS"). DMS provides issuers the ability to work retail discrepancies caused by processing errors, disputes, charge backs and fraud. Failure to comply with card association rules or government regulations can result in the loss of chargeback and representation rights or fines. ACI's DMS runs through a Case Management work flow, tracking disputes with debit and credit cards, EBT transactions, electronic banking and bill pay, ACH, and network adjustments. An audit trail of operator actions ensures that staff members follow procedures. DMS also provides an interface to institutions' general ledger and transaction processing systems, which saves time and ensures better audit trails. Because electronic banking disputes may be subject to governmental and internal audits, DMS stores all due dates and required customer notifications to maintain a complete historical file on each claim. Furthermore, users can create specific compliance reports.

Wholesale Payments

Our wholesale payments solutions are focused on global, super-regional and regional financial institutions that provide treasury management services to large corporations. In addition, the market includes non-bank financial institutions with the need to conduct their own internal treasury management activities.

Our wholesale payments solutions include high value payments processing, bulk payments processing, global messaging and Continuous Link Settlement processing, and are collectively referred to as the ACI Money Transfer System ("MTS"). The high value payments processing products, which produce the majority of revenues within the MTS solution set, are used to generate, authorize, route, settle and control high value wire transfer transactions in domestic and international environments. The MTS product operates on IBM pSeries servers using the AIX operating system and communicates over proprietary networks using a variety of messaging formats, including S.W.I.F.T., EBA, Target, Ellips, CEC, RTGSplus, Fedwire, CHIPS and Telex.

ACI Enterprise Banker, acquired in the P&H acquisition, is a comprehensive Internet-based business banking product for financial institutions, including banks, brokerage firms and credit unions and can be flexibly packaged for small, medium and large business customers. This product provides these customers with electronic payment initiation capability, information reporting, and numerous other payment related services that allow the business customer to manage all its banking needs via the Internet.

Cross Industry Solutions

The market for our Cross Industry Solutions is comprised of large corporations, including financial institutions, telecommunication companies, retailers and other entities, with the need to move business data or financial information and process business transactions electronically over public and private communications networks. These companies typically have many different computing systems that were not originally designed to operate together, and they typically want to preserve their investments in existing mainframe computer systems.

Our Cross Industry Solutions consist of a suite of infrastructure software products that facilitate communication, data movement, transaction processing, systems monitoring and business process automation across incompatible computing systems that include mainframes, distributed computing networks and the Internet. The primary Company-owned software products within this suite are ICE, WebGate, SafeTGate, ENGUARD and DataWise. In addition, as part of the S2 acquisition, we acquired a product called Network Express and as part of the eps AG acquisition, we acquired a product called Asset. The primary third-party products distributed as part of our Cross Industry Solutions are GoldenGate, VersaTest, SQLMagic and OpenNET/AO. ICE is a set of networking software products that allow applications running on the HP NonStop server to connect with applications running on, or access data stored on, computers that use the Systems Network Architecture protocol. WebGate is a product suite that allows HP NonStop servers to communicate with applications using web-based technology. SafeTGate is a family of security solutions that work in conjunction with ICE and WebGate. GoldenGate and DataWise are transactional data management products that capture, route, enhance and apply transactions in real time across a wide variety of data sources, most commonly for business continuity and data integration. ENGUARD is a proactive monitoring, alarm and dispatching software tool. Network Express provides network communications and middleware capabilities to support legacy systems integration and connectivity. Asset is a simulation and testing tool that allows companies involved in electronic payments to simulate devices and transactions, and perform application testing. SQLMagic is designed to improve system and database administration for HP NonStop servers. VersaTest provides online testing, simulation and support utilities for HP NonStop servers. OpenNET/AO provides policy-based management, monitoring and automation designed specifically for continuous availability of HP NonStop servers.

Third-Party Partners

We have two major types of third-party partners: strategic alliances where we work closely with industry leaders who drive key industry trends and mandates, and product partners, where we market or embed the products of other software companies.

Strategic alliances help us add value to our solutions, stay abreast of current market conditions, and extend our reach within our core markets. The following is a list of those companies with whom we have strategic alliances:

Hewlett-Packard Company

International Business Machines Corporation

Sun Microsystems, Inc.

Stratus Technologies

Microsoft Corporation

Diebold, Incorporated

NCR Corporation

Wincor-Nixdorf

Visa International

MasterCard International Incorporated

Oracle Corporation

Product partner relationships extend our product portfolio, improve our ability to get our solutions to market rapidly and enhance our ability to deliver market-leading solutions. We share revenues with these product partners based on relative responsibilities for the customer account. The agreements with product partners generally grant us the right to distribute or represent their products on a worldwide basis and have a term of several years. The following is a list of currently active product partners:

GoldenGate, Inc.

Merlon Software Corporation

Ascert, LLC

Gresham Computing, PLC

Allen Systems Group, Inc.

ESQ Business Services, Inc.

ACE Software Solutions, Inc.

Faircom Corporation

Paragon Application Systems, Inc.

Financial Software and Services, PTT

International Business Machines Corporation

CB.Net Ltd.

Side International S.A.

eClassic Systems

RDM Corporation

Intuit, Inc.

Vasco Data Security

NCR Corporation

Online Banking Solutions

Metatomix Inc.

PlaNet Group, Inc.

Services

We offer our customers a wide range of professional services, including analysis, design, development, implementation, integration and training. We have service professionals within each of our three geographic regions who generally perform the majority of the work associated with installing and integrating our software products, rather than relying on third-party systems integrators. Our service professionals have extensive experience performing such installation and integration services for clients operating on a range of computing platforms. We offer the following types of services for our customers:

Technical Services. The majority of our technical services are provided to customers who have licensed one or more of our software products. Services offered include programming and programming support, day-to-day systems operations, network operations, help desk staffing, quality assurance testing, problem resolution, system design, and performance planning and review. Technical services are typically priced on a weekly basis according to the level of technical expertise required and the duration of the project.

Project Management. We offer a Project Management and Implementation Plan ("PMIP") which provides customers with a variety of support services, including on-site product integration reviews, project planning, training, site preparation, installation, testing and go-live support, and project management throughout the project life cycle. We offer additional services, if required, on a fee basis. PMIPs are offered for a fee that varies based on the level and quantity of included support services.

Facilities Management. We offer facilities management services whereby we operate a customer's electronic payments system for multi-year periods. Pricing and payment terms for facilities management services vary on a case-by-case basis giving consideration to the complexity of the facility or system to be managed, the level and quantity of technical services required, and other factors relevant to the facilities management agreement.

ACI On Demand. We offer a service whereby we host a customer's system for them as opposed to the customer licensing and installing the system on their own site. We offer several of our solutions in this manner, including our retail and wholesale payment engines, risk management and online banking products. Each customer gets a unique image of the system that can be tailored to meet their needs. The product is generally located on facilities and hardware that we provide. Pricing and payment terms depend on which solutions the customer requires and their transaction volumes. Generally, customers are required to commit to a minimum contract of three to five years.

Customer Support

We provide our customers with product support that is available 24 hours a day, seven days a week. If requested by a customer, the product support group can remotely access that customer's systems on a real-time basis. This allows the product support groups to help diagnose and correct problems to enhance the continuous availability of a customer's business-critical systems. We offer our customers both a general maintenance plan and an extended service option.

General Maintenance. After software installation and project completion, we provide maintenance services to customers for a monthly fee. Maintenance services include:

- 24-hour hotline for problem resolution
- Customer account management support
- Vendor-required mandates and updates
- Product documentation
- Hardware operating system compatibility
- User group membership

Enhanced Support Program. Under the extended service option, referred to as the Enhanced Support Program, each customer is assigned an experienced technician to work with its system. The technician typically performs functions such as:

- Install and test software fixes
- Retrofit customer-specific software modifications ("CSMs") into new software releases
- Answer questions and resolve problems related to CSM code
- Maintain a detailed CSM history
- Monitor customer problems on HELP24 hotline database on a priority basis
- Supply on-site support, available upon demand
- Perform an annual system review

We provide new releases of our products on a periodic basis. New releases of our products, which often contain product enhancements, are typically provided at no additional fee for customers under maintenance agreements. Agreements with our customers permit us to charge for substantial product enhancements that are not provided as part of the maintenance agreement.

Competition

The electronic payments market is highly competitive and subject to rapid change. Competitive factors affecting the market for our products and services include product features, price, availability of customer support, ease of implementation, product and company reputation, and a commitment to continued investment in research and development.

Our competitors vary by product line, geography and market segment. Generally, our most significant competition comes from in-house information technology departments of existing and potential customers, as well as third-party electronic payments processors (some of whom are ACI Worldwide customers). Many of these companies are significantly larger than us and have significantly greater financial, technical and marketing resources. Key competitors by product line include the following:

Retail Payment Engines

The principal third-party software competitors for the Retail Payment Engines product line are Fidelity National Information Services, Inc. and S1 Corporation, as well as small, regionally-focused companies such as OpenWay, Distratech and CTL, Ltd. Primary electronic payment processing competitors in this area include global entities such as First Data Corporation, Fiserv, Metavante, Euronet, Visa and Mastercard, as well as regional or country-specific processors.

Risk Management

Principal competitors for the Risk Management product line are Fair Isaac, Retail Decisions, Mantas, SearchSpace, Americas Software and Visa DPS, as well as dozens of smaller companies focused on niches of this segment such as anti-money laundering.

Payments Management

Principal competitors for our Payments Management product line are Fidelity National Information Services, Inc., Baldwin Hacket and Meeks, Inc. and Bell ID.

Wholesale Payments

Principal competitors for our Wholesale Payments product line are Fundtech Ltd, LogicaCMG plc, Tieto Enator, Clear2Pay, Dovetail, Bankserv, SWIFT, Intuit Corporation, S1 Corporation, Metavante, Fiserv Inc. and a number of core banking processors.

Cross Industry Solutions

The principal competitor for our Cross Industry Solutions product line is Hewlett-Packard Company, as well as dozens of small, niche-focused competitors.

As markets continue to evolve in the electronic payments, risk management and smartcard sectors, we may encounter new competitors for our products and services. As electronic payment transaction volumes increase and banks face price competition, third-party processors may become stronger competition in our efforts to market our solutions to smaller financial institutions. In the larger financial institution market, we believe that third-party processors may be less competitive since large institutions attempt to differentiate their electronic payment product offerings from their competition, and are more likely to develop or continue to support their own internally-developed solutions or use third-party software packages such as those offered by us.

Research and Development

Our product development efforts focus on new products and improved versions of existing products. We facilitate user group meetings. The user groups are generally organized geographically or by product lines. The groups help us determine our product strategy, development plans and aspects of customer support. We believe that the timely development of new applications and enhancements is essential to maintain our competitive position in the market.

In developing new products, we work closely with our customers and industry leaders to determine requirements. We work with device manufacturers, such as Diebold, NCR and Wincor-Nixdorf, to ensure compatibility with the latest ATM technology. We work with interchange vendors, such as MasterCard and Visa, to ensure compliance with new regulations or processing mandates. We work with computer hardware and software manufacturers, such as Hewlett-Packard Company, IBM Corporation, Microsoft Corporation, Sun Microsystems, Inc. and Stratus Technologies, Inc. to ensure compatibility with new operating system releases and generations of hardware. Customers often provide additional information on requirements and serve as beta-test partners.

Our total research and development expenses during fiscal 2007, 2006, and 2005 were $52.1 million, $40.8 million, and $39.7 million, or 14.2%, 11.7%, and 12.7% of total revenues, respectively.

We develop new and enhanced versions of products in a number of product development locations. We have recently added product development facilities in Romania and Ireland to augment existing development staff and in anticipation of future personnel resource requirements to meet the needs of our product development efforts. We currently anticipate that these facilities will be expanded to between 100 and 200 personnel within the next two years.

Customers

We provide software products and services to customers in a range of industries worldwide, with financial institutions, retailers and e-payment processors comprising our largest industry segments. As of September 30, 2007, our customers include 122 of the 500 largest banks in the world, as measured by asset size, and 33 of the top 100 retailers in the United States, as measured by revenue. As of September 30, 2007, we had 815 customers in 85 countries on six continents. Of this total, 429 are in the Americas region, 228 are in the EMEA region and 158 are in the Asia/Pacific region. No single customer accounted for more than 10% of our consolidated revenues during fiscal 2007, 2006, or 2005.

Selling and Marketing

Our primary method of distribution is direct sales by employees assigned to specific regions or specific products. In addition, we use distributors and sales agents to supplement our direct sales force in countries where business practices or customs make it appropriate, or where it is more economical to do so. We generate a majority of our sales leads through existing relationships with vendors, direct marketing programs, customers and prospects, or through referrals.

Key international distributors and sales agents for us during fiscal 2007 included:

PTESA (Colombia)

PTESAVEN (Venezuela)

North Data (Uruguay)

Hewlett-Packard Peru (Peru)

P.T. Abhimata Persada (Indonesia)

Financial Software and Systems, Ltd. (India)

HP Philippines (Philippines)

Korea Computer, Inc. (Korea)

DataOne Asia Co. Ltd (Thailand)

Syscom (Taiwan and China)

Stratasoft Sdn Bhd (Malaysia)

Optimisa S.A. (Chile)

During fiscal 2007, we terminated three of the above distribution relationships and established a direct distribution model in certain markets in the Asia/Pacific region. In January 2007, we gave notice of our intent to terminate certain distribution agreements with Financial Software and Systems, Ltd. which was effective December 31, 2007.

In addition, in connection with the establishment of a direct presence in the Philippine Islands, we terminated our distribution relationship with HP Philippines effective March 31, 2007. Also, on April 2, 2007, we acquired Stratasoft Sdn Bhd, a distributor of our OCM 24 product within the Malaysian market, and effective upon the acquisition, our distribution relationship with Stratasoft ceased.

We distribute the products of other vendors as complements to our existing product lines. We are typically responsible for the sales and marketing of the vendor's products, and agreements with these vendors generally provide for revenue sharing based on relative responsibilities.

In addition to our principal sales office in Omaha, we also have sales offices located outside the United States in Athens, Bahrain, Buenos Aires, Dubai Internet City, Frankfurt, Gouda, Johannesburg, Madrid, Melbourne, Mexico City, Milan, Moscow, Naples, Paris, Riyadh, Sao Paulo, Seoul, Singapore, Sydney, Tokyo, Toronto, and Watford.

Proprietary Rights and Licenses

We rely on a combination of trade secret and copyright laws, license agreements, contractual provisions and confidentiality agreements to protect our proprietary rights. We distribute our software products under software license agreements that typically grant customers nonexclusive licenses to use our products. Use of the software products is usually restricted to designated computers, specified locations and/or specified capacity, and is subject to terms and conditions prohibiting unauthorized reproduction or transfer of our software products. We also seek to protect the source code of our software as a trade secret and as a copyrighted work. Despite these precautions, there can be no assurance that misappropriation of our software products and technology will not occur.

In addition to our own products, we distribute, or act as a sales agent for, software developed by third parties. However, we typically are not involved in the development process used by these third parties. Our rights to those third-party products and the associated intellectual property rights are limited by the terms of the contractual agreement between us and the respective third-party.

Although we believe that our owned and licensed intellectual property rights do not infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not assert infringement claims against us. Further, there can be no assurance that intellectual property protection will be available for our products in all foreign countries.

Like many companies in the electronic commerce and other high-tech industries, third parties have in the past and may in the future assert claims or initiate litigation related to patent, copyright, trademark or other intellectual property rights to business processes, technologies and related standards that are relevant to us and our customers. These assertions have increased over time as a result of the general increase in patent claims assertions, particularly in the United States. Third parties may also claim that the third-party's intellectual property rights are being infringed by our customers' use of a business process method which utilizes products in conjunction with other products, which could result in indemnification claims against us by our customers. Any claim against us, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays, require us to enter into royalty or licensing agreements or pay amounts in settlement, or require us to develop alternative non-infringing technology. We could also be required to defend or indemnify our customers against such claims. A successful claim by a third-party of intellectual property infringement by us or one of our customers could compel us to enter into costly royalty or license agreements, pay significant damages or even stop selling certain products and incur additional costs to develop alternative non-infringing technology.

Foreign Operations

We derive a significant portion of our revenues from foreign operations. For detail of revenue by geographic region see Note 12, "Segment Information", in the Notes to Consolidated Financial Statements.

Employees

As of September 30, 2007, we had a total of approximately 2,186 employees of whom 1,277 were in the Americas region, 295 were in the Asia/Pacific region, and 614 were in the EMEA region. Of those employees, we had 823 employees in product development functions and 241 employees in corporate administration positions, including executive management, legal, human resources, finance, information systems, investor relations, internal audit and facility operations, providing supporting services to each of the regions.

None of our employees are subject to a collective bargaining agreement. We believe that relations with our employees are good.

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), are available free of charge on our website at *www.aciworldwide.com* as soon as reasonably practicable after we file such information electronically with the Securities and Exchange Commission ("SEC"). The information found on our website is not part of this or any other report we file with or furnish to the SEC. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, Room 1580, NW, Washington DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at *www.sec.gov*.

ITEM 1A. RISK FACTORS

Factors That May Affect Our Future Results or the Market Price of Our Common Stock

We operate in a rapidly changing technological and economic environment that presents numerous risks. Many of these risks are beyond our control and are driven by factors that often cannot be predicted. The following discussion highlights some of these risks.

We may face risks related to the restatement of our financial statements.

During fiscal 2007, we restated our consolidated balance sheet as of September 30, 2005, and our consolidated statements of operations, our consolidated statements of stockholders' equity and comprehensive income and consolidated statements of cash flows for each of the years ended September 30, 2005 and 2004. In addition, we restated selected financial data for fiscal years 2004, 2003 and 2002.

Companies that restate their financial statements sometimes face litigation claims and/or SEC proceedings following such a restatement. We could face monetary judgments, penalties or other sanctions which could adversely affect our financial condition and could cause our stock price to decline.

As a result of the delay in filing this Annual Report, we required certain extensions in connection with the delivery of financial statements and related matters under financing arrangements for our bank debt. We may require additional extensions in the future, and failure to obtain the necessary extensions could have a material adverse effect on our business, liquidity and financial condition.

We obtained certain extensions for the delivery of financial statements and related matters under our credit facilities as a result of the delay in filing this Annual Report on Form 10-K for the fiscal year ended September 30, 2007 (the "Annual Report"). The extensions established the extended deadline for the delivery of the annual financial statements contained in this Annual Report. Our current extensions under the credit facilities for our annual financial statements for the fiscal year ended September 30, 2007 expire January 31, 2008. We must deliver the financial statements for the transition period ended December 31, 2007 by no later than March 15, 2008. We may not be able to deliver our financial statements for the transition period ending December 31, 2007 within the required delivery period, and therefore, we may seek additional extensions under the credit facilities.

Under our credit facilities, the lenders have the right to notify us if they believe we have breached a representation or covenant under the operative debt instruments and may declare an event of default. If one or more notices of default were to be given, we believe we would have various periods in which to cure such events of default or obtain necessary extensions. If we do not cure the events of default or obtain necessary extensions within the required time periods or certain extended time periods, the maturity of all or some of our debt could be accelerated and our ability to incur additional indebtedness could be restricted. Moreover, defaults under our bank loan agreements could trigger cross-default provisions under those and other debt arrangements. There can be no assurance that any additional extensions will be received on a timely basis, if at all, or that any extensions obtained, including the extensions we have already obtained, will extend for a sufficient period of time to avoid an acceleration event, an event of default or other restrictions on our business operations. The failure to obtain such extensions or other waivers could have a material adverse effect on our business, liquidity and financial condition.

The delay in filing this Annual Report on Form 10-K with the SEC and any failure to satisfy other NASDAQ listing requirements could cause NASDAQ to commence suspension or delisting procedures with respect to our common stock.

As a result of the delay in filing this Annual Report, we were in breach of certain continued listing requirements of the NASDAQ. We requested a hearing before the NASDAQ Listing Qualifications Panel in which we will request continued listing of our securities on The NASDAQ Global Select Stock Market for the period covering when we fell out of compliance with the continued listing requirements until we again regain compliance. We cannot assure that NASDAQ will grant our request or that NASDAQ will not impose additional conditions on our continued listing. If NASDAQ does not grant our request or if we fail to satisfy any additional conditions established by NASDAQ or any other NASDAQ listing requirements, including the timely filing of our Transition Report on Form 10-Q for the transition period ended December 31, 2007, if not waived by the NASDAQ, NASDAQ could commence suspension or delisting procedures with respect to our common stock. The commencement of any suspension or delisting procedures by the NASDAQ remains, at all times, at the discretion of the NASDAQ and would be publicly announced by the NASDAQ. The delisting of our common stock from NASDAQ may have a material adverse effect on us by, among other things, limiting:

- the liquidity of our common stock;
- the market price of our common stock;
- the number of institutional and other investors that will consider investing in our common stock;
- the availability of information concerning the trading prices and volume of our common stock;

the number of broker-dealers willing to execute trades in shares of our common stock; and

our ability to obtain equity financing for the continuation of our operations.

Our performance could be materially adversely affected by a general economic downturn or lessening demand in the software sector and financial services industry.

Purchases of technology products and services are subject to adverse economic conditions. Our financial condition depends on the health of the general economy as well as the software sector and financial services industry as our revenue and profits are driven by demand for our products and services. When an economy is struggling, companies in many industries delay or reduce technology purchases. A lessening demand in either the overall economy, the software sector or the financial services industry could result in reduced capital spending by our customers, longer sales cycles, deferral or delay of purchase commitments for our products and increased price competition which could lead to a material decrease in our future revenues and earnings.

The software market is a rapidly changing and highly competitive industry, and we may not be able to compete effectively.

The software market is characterized by rapidly changing technologies, intense competition and evolving industry standards. There is no assurance that we will be able to maintain our current market share or customer base. We have many competitors that are significantly larger than us and have significantly greater financial, technical and marketing resources. If we fail to enhance our current products and develop new products in response to changes in technology and industry standards, bring product enhancements or new product developments to market quickly enough, or accurately predict future changes in our customers' needs and our competitors develop new technologies or products, our products could become less competitive or obsolete. In addition, we expect that the markets in which we compete will continue to attract new competitors and new technologies. Increased competition in our markets could lead to price reductions, reduced profits, or loss of market share.

Management's backlog estimate may not be accurate and may not generate the predicted revenues.

Estimates of future financial results are inherently unreliable. Our backlog estimates require substantial judgment and are based on a number of assumptions, including management's current assessment of customer and third party contracts that exist as of the date the estimates are made, as well as revenues from assumed contract renewals, to the extent that we believe that recognition of the related revenue will occur within the corresponding backlog period. A number of factors could result in actual revenues being less than the amounts reflected in backlog. Our customers or third party partners 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 within their industries or geographic locations, or we may experience delays in the development or delivery of products or services specified in customer contracts. Actual renewal rates and amounts may differ from historical experiences used to estimate backlog amounts. Changes in foreign currency exchange rates may also impact the amount of revenue actually recognized in future periods. Accordingly, there can be no assurance that contracts included in backlog will actually generate the specified revenues or that the actual revenues will be generated within a 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 generally accepted accounting principles ("GAAP") financial measure.

We may face exposure to unknown tax liabilities, which could adversely affect our financial condition and/or results of operations.

We are subject to income and non-income based taxes in the United States and in various foreign jurisdictions. Significant judgment is required in determining our worldwide income tax liabilities and other tax liabilities. In addition, we expect to continue to benefit from implemented tax-saving strategies. We believe that these tax-saving strategies comply with applicable tax law. If the governing tax authorities have a different interpretation of the applicable law and successfully challenge any of our tax positions, our financial condition and/or results of operations could be adversely affected.

Our tax positions in our United States federal income tax returns filed for the 2005 and 2006 tax years are the subject of an ongoing examination by the Internal Revenue Service ("IRS"). We believe that our tax positions comply with applicable tax law and intend to vigorously defend our positions. This examination could result in the IRS issuing proposed adjustments that could adversely affect our financial condition and/or results of operations.

Two of our foreign subsidiaries are the subject of tax examinations by the local taxing authorities. Other foreign subsidiaries could face challenges from various foreign tax authorities. It is not certain that the local authorities will accept our tax positions. We believe our tax positions comply with applicable tax law and intend to vigorously defend our positions. However, differing positions on certain issues could be upheld by foreign tax authorities, which could adversely affect our financial condition and/or results of operations.

Consolidation in the financial services industry may adversely impact the number of customers and our revenues in the future.

Mergers, acquisitions and personnel changes at key financial services organizations have the potential to adversely affect our business, financial condition, and results of operations. Our business is concentrated in the financial services industry, making us susceptible to a downturn in that industry. Consolidation activity among financial institutions has increased in recent years. There are several potential negative effects of increased consolidation activity. Continuing consolidation of financial institutions could cause us to lose existing and potential customers for our products and services. For instance, 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 decided to forego future use of our products, our revenues would decline.

Our stock price may be volatile.

No assurance can be given that operating results will not vary from quarter to quarter, and past performance may not accurately predict future performance. Any fluctuations in quarterly operating results may result in volatility in our stock price. Our stock price may also be volatile, in part, due to external factors such as announcements by third parties or competitors, inherent volatility in the technology sector, and changing market conditions in the software industry.

There are a number of risks associated with our international operations.

We have historically derived a majority of our revenues from international operations and anticipate continuing to do so. As a result, we are subject to risks of conducting international operations. One of the principal risks associated with international operations is potentially adverse movements of foreign currency exchange rates. Our exposures resulting from fluctuations in foreign currency exchange rates may change over time as our business evolves and could have an adverse impact on our financial condition and/or results of operations. We have not entered into any derivative instruments or hedging contracts to reduce exposure to adverse foreign currency changes. Other potential risks include difficulties associated with staffing and management, reliance on independent distributors, longer payment cycles, potentially unfavorable changes to foreign tax rules, compliance with foreign regulatory requirements, reduced protection of intellectual property rights, variability of foreign economic conditions, changing restrictions imposed by United States export laws, and general economic and political conditions in the countries where we sell our products and services.

We are engaged in offshore software development activities, which may not be successful and which may put our intellectual property at risk.

As part of our globalization strategy and to optimize available research and development resources, 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 oversees remote software development operations in Romania and elsewhere, as well as manages certain of our intellectual property rights. While our experience to date with our offshore development centers has been positive, there is no assurance that this will continue. Specifically, there are a number of risks associated with this activity, including but not limited to the following:

- communications and information flow may be less efficient and accurate as a consequence of the time, distance and language differences between our primary development organization and the foreign based activities, resulting in delays in development or errors in the software developed;

- in addition to the risk of misappropriation of intellectual property from departing personnel, there is a general risk of the potential for misappropriation of our intellectual property that might not be readily discoverable;

- the quality of the development efforts undertaken offshore may not meet our requirements because of language, cultural and experiential differences, resulting in potential product errors and/or delays;

- potential disruption from the involvement of the United States in political and military conflicts around the world; and

- currency exchange rates could fluctuate and adversely impact the cost advantages intended from maintaining these facilities.

One of our most strategic products, BASE24-eps, could prove to be unsuccessful in the market.

Our BASE24-eps product is strategic for us, in that it is designated to help us win new accounts, replace legacy payments systems on multiple hardware platforms and help us transition our existing customers to a new, open-systems product architecture. Our business, financial condition and/or results of operations could be materially adversely affected if we are unable to generate adequate sales of BASE24-eps, if market acceptance of BASE24-eps is delayed, or if we are unable to successfully deploy BASE24-eps in production environments.

Our future profitability depends on demand for our products; lower demand in the future could adversely affect our business.

Our revenue and profitability depend on the overall demand for our products and services. Historically, a majority of our total revenues resulted from licensing our BASE24 product line and providing related services and maintenance. Any reduction in demand for, or increase in competition with respect to, the BASE24 product line could have a material adverse effect on our financial condition and/or results of operations.

We have historically derived a substantial portion of our revenues from licensing of software products that operate on HP NonStop servers. Any reduction in demand for HP NonStop servers, or any change in strategy by HP related to support of its NonStop servers, could have a material adverse effect on our financial condition and/or results of operations.

If we are unable to successfully perform under the terms of our alliance with IBM or our customers are not receptive to the alliance, our business, financial condition and/or results of operations may be adversely affected.

In December 2007, we entered into a Master Alliance Agreement and certain other related agreements with International Business Machines Corporation ("IBM") to create a strategic alliance between us and IBM (the "Alliance"). Pursuant to the Alliance Agreement, we agreed to enable our payment application software products on certain of IBM's hardware platforms, including the IBM System z Platform and we agreed to enter into collective sales and marketing efforts with IBM to offer a combination of ACI and IBM solutions. We cannot be certain that we will be able to successfully enable our products on IBM's hardware platforms or that our customers and potential customers will be receptive to this Alliance or our new sales and marketing strategy. If we are unable to enable our software products on the IBM hardware platforms or the market does not react positively to the Alliance, our business, financial condition and/or results of operations could be materially adversely affected.

Our software products may contain undetected errors or other defects, which could damage our reputation with customers, decrease profitability, and expose us to liability.

Our software products are complex. They may contain undetected errors or flaws when first introduced or as new versions are released. These undetected errors may result in loss of, or delay in, market acceptance of our products and a corresponding loss of sales or revenues. Customers depend upon our products for mission-critical applications, and these errors may hurt our reputation with customers. In addition, software product errors or failures could subject us to product liability, as well as performance and warranty claims, which could materially adversely affect our business, financial condition and/or results of operations.

Security breaches or computer viruses could harm our business by disrupting delivery of services and damaging our reputation.

As part of our business, we electronically receive, process, store, and transmit sensitive business information of our customers. Unauthorized access to our computer systems or databases could result in the theft or publication of confidential information or the deletion or modification of records or could otherwise cause interruptions in our operations. These concerns about security are increased when we transmit information over the Internet. Security breaches in connection with the delivery of our products and services, including products and services utilizing the Internet, or well-publicized security breaches, and the trend toward broad consumer and general public notification of such incidents, could significantly harm our business, financial condition and/or results of operations. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology protecting our networks and confidential information. Computer viruses have also been distributed and have rapidly spread over the Internet. Computer viruses could infiltrate our systems, disrupting our delivery of services and making our applications unavailable. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and terminate their agreements with us, and could inhibit our ability to attract new customers.

Risks associated with future acquisitions and investments could materially adversely affect our business.

We may 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. During fiscal 2007, we acquired Visual Web and Stratasoft. Any acquisition or investment, including the acquisitions of Visual Web and Stratasoft, is subject to a number of risks. Such risks include the diversion of management time and resources, disruption of our ongoing business, dilution to existing stockholders if our common stock is issued in consideration for an acquisition or investment, incurring or assuming indebtedness or other liabilities in connection with an acquisition, lack of familiarity with new markets, and difficulties in supporting new product lines.

Further, even if we successfully complete acquisitions, we face challenges in integrating any acquired business. These challenges include eliminating redundant operations, facilities and systems, coordinating management and personnel, retaining key employees, managing different corporate cultures, and achieving cost reductions and cross-selling opportunities. There can be no assurance that we will be able to fully integrate all aspects of acquired businesses successfully or fully realize the potential benefits of bringing them together, and the process of integrating these acquisitions may disrupt our business and divert our resources.

Our failure to successfully manage acquisitions or investments, or successfully integrate acquisitions could have a material adverse effect on our business, financial condition and/or results of operations. Correspondingly, our expectations related to the benefits related to the Visual Web and Stratasoft acquisitions, prior acquisitions in 2005 and 2006 or any other future acquisition or investment could be inaccurate.

If our products and services fail to comply with government regulations and industry standards to which are customers are subject, it could result in a loss of customers and decreased revenue.

Our customers are subject to a number of government regulations and industry standards with which our products and services must comply. For example, our products are affected by VISA and MasterCard electronic payment standards that are generally updated twice annually. In addition, action by regulatory authorities relating to credit availability, data usage, privacy, or other related regulatory developments could have an adverse effect on our customers and therefore could have a material adverse effect on our business, financial condition, and results of operations.

If we fail to comply with privacy regulations imposed on providers of services to financial institutions, our business could be harmed.

As a provider of services to financial institutions, we may be bound by the same limitations on disclosure of the information we receive from our customers as apply to the financial institutions themselves. If we are subject to these limitations and we fail to comply with applicable regulations, we could be exposed to suits for breach of contract or to governmental proceedings, our customer relationships and reputation could be harmed, and we could be inhibited in our ability to obtain new customers. In addition, if more restrictive privacy laws or rules are adopted in the future on the federal or state level, or, with respect to our international operations, by authorities in foreign jurisdictions on the national, provincial, state, or other level, that could have an adverse impact on our business.

If we experience system failures, the products and services we provide to our customers could be delayed or interrupted, which could harm our business and reputation and result in the loss of customers.

Our ability to provide reliable service in a number of our businesses depends on the efficient and uninterrupted operations of our computer network systems and data centers. Our systems and operations could be exposed to damage or interruption from fire, natural disaster, power loss, telecommunications failure, unauthorized entry, and computer viruses. Although we have taken steps to prevent system failures, we cannot be certain that our measures will be successful. Further, our property and business interruption insurance may not be adequate to compensate us for all losses or failures that may occur. Any significant interruptions could:

- increase our operating expenses to correct problems caused by the interruption;
- harm our business and reputation;
- result in a loss of customers; or
- expose us to liability.

Any one or more of the foregoing occurrences could have a material adverse effect on our business, financial condition, and results of operations.

We may be unable to protect our intellectual property and technology and may be subject to increasing litigation over our intellectual property rights.

To protect our proprietary rights in our intellectual property, we rely on a combination of contractual provisions, including customer licenses that restrict use of our products, confidentiality agreements and procedures, and trade secret and copyright laws. Despite such efforts, we may not be able to adequately protect our proprietary rights, or our competitors may independently develop similar technology, duplicate products, or design around any rights we believe to be proprietary. This may be particularly true in countries other than the United States because some foreign laws do not protect proprietary rights to the same extent as certain laws of the United States. Any failure or inability to protect our proprietary rights could materially adversely affect our business.

There has been a substantial amount of litigation in the software industry regarding intellectual property rights. Third parties have in the past, and may in the future, assert claims or initiate litigation related to exclusive patent, copyright, trademark or other intellectual property rights to business processes, technologies and related standards that are relevant to us and our customers. These assertions have increased over time as a result of the general increase in patent claims assertions, particularly in the United States. Because of the existence of a large number of patents in the electronic commerce field, the secrecy of some pending patents and the rapid issuance of new patents, it is not economical or even possible to determine in advance whether a product or any of its components infringes or will infringe on the patent rights of others. Any claim against us, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays, require us to enter into royalty or licensing agreements or pay amounts in settlement, or require us to develop alternative non-infringing technology.

We anticipate that software product developers and providers of electronic commerce solutions could increasingly be subject to infringement claims, and third parties may claim that our present and future products infringe upon their intellectual property rights. Third parties may also claim, and we are aware that at least two parties have claimed on several occasions, that our customers' use of a business process method which utilizes our products in conjunction with other products infringe on the third-party's intellectual property rights. These third-party claims could lead to indemnification claims against us by our customers. Claims against our customers related to our products, whether or not meritorious, could harm our reputation and reduce demand for our products. Where indemnification claims are made by customers, resistance even to unmeritorious claims could damage the customer relationship. A successful claim by a third-party of intellectual property infringement by us or one of our customers could compel us to enter into costly royalty or license agreements, pay significant damages, or stop selling certain products and incur additional costs to develop alternative non-infringing technology.

Royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all, which could adversely affect our business.

Our exposure to risks associated with the use of intellectual property may be increased for third-party products distributed by us or as a result of acquisitions since we have a lower level of visibility, if any, into the development process with respect to such third-party products and acquired technology or the care taken to safeguard against infringement risks.

Our restructuring plan may not achieve expected efficiencies.

In October 2005, we announced a plan to restructure our organization because we believed that combining our three business units into a single operating unit would provide us with the best opportunities for focus, operating efficiency and strategic acquisition integration. This restructuring of our three business units into one operating unit is subject to a number of risks, including but not limited to diversion of management time and resources, disruption of our service to customers, and lack of familiarity with markets or products. We cannot assure investors that our expectation of savings expected to stem from the restructuring will be achieved.

We may become involved in litigation that could materially adversely affect our business financial condition and/or results of operations.

From time to time, we are involved in litigation relating to claims arising out of our operations. Any claims, with or without merit, could be time-consuming and result in costly litigation. Failure to successfully defend against these claims could result in a material adverse effect on our business, financial condition, results of operations and/or cash flows.

Management has identified material weaknesses in our internal control over financial reporting.

Effective internal control over financial reporting is necessary for compliance with the Sarbanes-Oxley Act of 2002 and appropriate financial reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process, under the supervision of our CEO and CFO, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with GAAP. As disclosed in this Annual Report, management's assessment of our internal control over financial reporting identified material weaknesses for recognition of revenue and accounting for income taxes, as discussed in *Item 9A. Controls and Procedures*. No assurance can be given that we will be able to successfully implement revised internal controls and procedures, if any, or that revised controls and procedures, if any, will be effective in remedying the potential material weakness in our prior controls and procedures, nor can we provide assurance that we will not identify additional material weaknesses in the future. In addition, we may be required to hire additional employees to help implement these changes, and may experience higher than anticipated capital expenditures and operating expenses during the implementation of these changes and thereafter. If we are unable to implement these changes effectively or if other material weaknesses develop and we are unable to effectively address these matters, there could be a material adverse effect on our business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease office space in New York, New York for our principal executive headquarters. We also lease office space in Omaha, Nebraska, for our principal product development group, sales and support groups for the Americas, as well as our corporate, accounting and administrative functions. The leases for our current Omaha-based facilities expire in fiscal 2008. We have contracted for new Omaha-based facilities to be first occupied at the end of 2008 and to continue through fiscal 2028. Our EMEA headquarters is located in Watford, England. The lease for the Watford facility expires at the end of 2016. Our Asia/Pacific headquarters is located in Singapore, with the lease for this facility expiring in fiscal 2008. We also lease office space in numerous other locations in the United States and in many other countries.

We believe that our current facilities are adequate for our present and short-term foreseeable needs and that additional suitable space will be available as required. We also believe that we will be able to renew leases as they expire or secure alternate suitable space. See Note 17, "Commitments and Contingencies", in the Notes to Consolidated Financial Statements for additional information regarding our obligations under our facilities leases.

ITEM 3. LEGAL PROCEEDINGS

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

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

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

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

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

On June 14, 2006, we and the individual defendants filed a motion to dismiss the Third Complaint pursuant to Rules 8 and 12 of the Federal Rules of Civil Procedure. Lead plaintiff opposed the motion. Prior to any ruling on the motion to dismiss, on November 7, 2006, the parties entered into a Stipulation of Settlement for purposes of settling all of the claims in the Class Action Litigation, with no admissions of wrongdoing by us or any individual defendant. The settlement provides for an aggregate cash payment of $24.5 million of which, net of insurance, we contributed approximately $8.5 million. The settlement was approved by the Court on March 2, 2007 and the Court ordered the case dismissed with prejudice against us and the individual defendants.

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

Derivative Litigation. On May 16, 2007, Thomas J. Lieven filed a purported stockholder derivative action in the United States District Court for the Southern District of New York. The lawsuit named certain former and current officers and directors as individual defendants. We were named as a nominal defendant. The plaintiff made allegations related to our historical stock option granting practices, and asserted claims on behalf of us against the individual defendants under Section 14(a) of the Securities Exchange Act of 1934 and Rule 14a-9, as well as state law claims for breach of fiduciary duties, abuse of control, gross mismanagement, constructive fraud, waste of corporate assets and unjust enrichment. On October 30, 2007, the lawsuit was dismissed with prejudice as to the individual plaintiff, Thomas J. Lieven, and without prejudice as to our rights as nominal defendant.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our Annual Meeting of Stockholders was held on July 24, 2007. The matters voted upon at such meeting and the number of shares cast for, against or withheld, and abstained are set forth in the Quarterly Report on Form 10-Q for the period ended March 31, 2007.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on The NASDAQ Global Select Market under the symbol ACIW. The following table sets forth, for the periods indicated, the high and low sale prices of our common stock as reported by The NASDAQ Global Select Market:

	2007		2006	
	High	**Low**	**High**	**Low**
Fourth quarter	$ 36.68	$ 20.65	$ 42.37	$ 31.05
Third quarter	$ 35.48	$ 30.60	$ 43.00	$ 30.25
Second quarter	$ 38.72	$ 28.10	$ 34.37	$ 28.06
First quarter	$ 37.14	$ 31.45	$ 30.67	$ 24.91

As of January 25, 2008, there were 221 holders of record of our common stock. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers and other financial institutions.

Dividends

We have never declared nor paid cash dividends on our common stock. We do not presently anticipate paying cash dividends. However, any future determination relating to our dividend policy will be made at the discretion of our Board of Directors and will depend upon our financial condition, capital requirements and earnings, as well as other factors the Board of Directors may deem relevant.

Issuer Purchases of Equity Securities

The following table provides information regarding repurchases of our common stock during the fourth quarter of fiscal 2007:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
July 1 through July 31, 2007	27,620	$ 33.26	27,620	$ 116,337,000
August 1 through August 31, 2007	469,000	$ 27.95	469,000	$ 103,228,000
September 1 through September 30, 2007	496,194	$ 26.02	496,194	$ 90,317,000
Total (1)	992,814	$ 27.13	992,814	

(1) In fiscal 2005, 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 million of our common stock, and that we intend to use existing cash and cash equivalents to fund these repurchases. In May 2006, our Board of Directors approved an increase of $30 million to the stock repurchase program, bringing the total of the approved program to $110 million. In March 2007, our Board of Directors approved an increase of $100 million to its current repurchase authorization, bringing the total authorization to $210 million, of which approximately $90 million remains available. In June 2007, we implemented this previously announced increase to our share repurchase program. There is no guarantee as to the exact number of shares that will be repurchased by us. Repurchased shares are returned to the status of authorized but unissued shares of common stock. In March 2005, our Board of Directors approved a plan

under Rule 10b5-1

of the Securities Exchange Act of 1934 to facilitate the repurchase of shares of common stock under the existing stock repurchase program. Under our Rule 10b5-1 plan, we have delegated authority over the timing and amount of repurchases to an independent broker who does not have access to inside information about the Company. Rule 10b5-1 allows us, through the independent broker, to purchase shares at times when we ordinarily would not be in the market because of self-imposed trading blackout periods, such as the time immediately preceding the end of the fiscal quarter through a period three business days following our quarterly earnings release. During the fourth quarter of fiscal 2007, all shares were purchased in open-market transactions.

In addition to the purchases set forth above, during fiscal 2007, we settled options to purchase 520,686 shares and incurred cash outlays of approximately $8.1 million, and corresponding expense of $4.7 million, for such settlements in connection with 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 our filings with the SEC.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data has been derived from our consolidated financial statements. This data should be read together with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", and the consolidated financial statements and related notes included elsewhere in this Annual Report. The data for the consolidated balance sheets as of September 30, 2004 and 2003 and the consolidated statements of operations for the fiscal years ended September 30, 2003 have been restated in prior years to reflect the impact of the stock- based compensation adjustments, but such restated data have not been audited and are derived from our books and records. The financial information below is not necessarily indicative of the results of future operations. Future results could differ materially from historical results due to many factors, including those discussed in Item 1A in the section entitled "Risk Factors Factors That May Affect the Company's Future Results or the Market Price of our Common Stock."

	Year Ended September 30,				
	2007	2006	2005	2004	2003
	(in thousands, except per share data)				
Income Statement Data:					
Total revenues	$ 366,218	$ 347,902	$ 313,237	$ 292,784	$ 277,291
Net income (loss) (1)	$ (9,131)	$ 55,365	$ 43,099	$ 46,306	$ 14,057
Earnings per share:					
Basic	$ (0.25)	$ 1.48	$ 1.14	$ 1.25	$ 0.40
Diluted	$ (0.25)	$ 1.45	$ 1.12	$ 1.21	$ 0.39
Shares used in computing earnings per share:					
Basic	36,933	37,369	37,682	37,001	35,558
Diluted	36,933	38,237	38,507	38,117	35,722

	As of September 30,				
	2007	2006	2005	2004	2003
Balance Sheet Data:					
Working capital (2)	$ 17,358	$ 67,932	$ 120,594	$ 124,088	$ 81,084
Total assets (2)	506,741	539,365	363,700	325,959	264,405
Current portion of debt			2,165	7,027	15,493
Debt (long-term portion) (2) (3)	76,546	78,093	905	2,672	9,740
Stockholders' equity (1)	225,012	267,212	217,438	187,462	123,379

(1) We adopted FAS 123(R) using the modified prospective transition method on October 1, 2005.

(2) On September 29, 2006, we acquired P&H. The aggregate purchase price for P&H was approximately $134 million, of which $73 million was financed by long-term debt.

(3) Debt (long-term portion) also includes long-term capital lease obligations of $1.5 million, $3.1 million, $0.8 million, $0.3 million and $0.3 million as of September 30, 2007, 2006, 2005, 2004, and 2003, respectively, which is included in other noncurrent liabilities in the consolidated balance sheets.

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, 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.

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.

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):

	Year Ended September 30,					
	2007		2006		2005	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue
Revenues:						
Initial license fees (ILFs)	$ 95,668	26.1%	$ 107,347	30.9%	$ 95,206	30.4%
Monthly license fees (MLFs)	53,817	14.7%	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

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.

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. 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 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.

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 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.

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 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.

	Year Ended September 30,		
	2007	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.

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):

	Payments due by Period				
	Total	**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.

	Fair Value of Contracts at Period-End				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Source of fair value					
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 it 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We conduct business in all parts of the world and are thereby exposed to market risks related to fluctuations in f