IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEBRASKA

DESERT ORCHID PARTNERS, L.L.C., individually and on behalf of all others similarly situated, Plaintiff, vs. TRANSACTION SYSTEMS ARCHITECTS, INC., WILLIAM E. FISHER, GREGORY J. DUMAN, DWIGHT G. HANSON, DAVID C. RUSSELL, GREGORY DERKACHT, and EDWARD FUXA, Defendants.	)	**8:02CV553** **FIRST AMENDED CONSOLIDATED CLASS ACTION COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS** **Jury Trial Demanded**
NANCY ROSEN, individually and on behalf of herself and all others similarly situated, Plaintiff vs. TRANSACTION SYSTEMS ARCHITECTS, INC., WILLIAM E. FISHER, GREGORY J. DUMAN, DWIGHT G. HANSON, DAVID C. RUSSELL, GREGORY DERKACHT, and EDWARD FUXA, Defendants.	)	**8:02CV561** **(Class Action)**

Lead Plaintiff, Genesee County Employees' Retirement System ("Genesee" or "Lead Plaintiff"), individually and on behalf of all other persons similarly situated, by its undersigned attorneys, alleges the following based upon personal knowledge as to itself and its own acts, and information and belief as to all other matters, based upon, inter alia, the investigation conducted by and through its attorneys, which included a review of the public documents and announcements made by the defendants, documents filed with the Securities

Exchange Commission ("SEC"), press releases issued by Transaction Systems Architects, Inc. ("TSA" or the "Company"), reports by analysts who followed TSA and interviews with witnesses, including former employees of the Company. Lead Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a securities class action brought by Lead Plaintiff on behalf of itself and a class consisting of all persons who purchased TSA securities during the period from January 21, 1999 through and including November 18, 2002 (the "Class Period"), to recover damages caused by the Defendants' violations of the Securities Exchange Act of 1934 ("Exchange Act").

2. The class period begins near the end of the "high tech boom," during which TSA's stock traded as high as $50.50 per share. The high stock price benefited TSA in its business strategy of growth through acquisition whereby TSA's common stock was used as currency to purchase other companies. However, beginning in the first quarter of fiscal 1999, TSA began to fall short of achieving its financial targets. In response, Defendants engaged in a pattern of disregarding well-established accounting principles in order to report financial results which were materially false in order to meet analysts' expectations and maintain TSA Class A common stock at an artificially high price.

3. After the market closed on August 14, 2002, TSA announced that: (i) the Company would conduct a re-audit of the financial statements for fiscal years 1999, 2000 and 2001; (ii) the re-audits would likely result in the restatement of the Company's financial statements; (iii) TSA's new auditor, KPMG, LLP ("KPMG"), was not able to certify the accuracy

of the interim financial statement for the third quarter of 2002 pursuant to the newly enacted Sarbanes-Oxley Act of 2002; and (iv) Greg Duman, the Company's Chairman of the Board of Directors, had resigned effective August 13, 2002. As a result of this announcement, TSA's share price fell almost 20% on August 15, 2002.

4. On November 19, 2002, the Company announced that it would restate – ***i.e. admit as false in material amounts*** – its financial statements for fiscal 1999, 2000 and 2001, as well as restate its previously issued 2000, 2001 and 2002 quarterly results because it improperly recognized revenue in conjunction with its software licensing arrangements. The size of the restatement is dramatic. Remarkably, the accounting shenanigans were so pervasive that it affected all aspects of the Company's financial reporting, including revenue recognition, collectibility, contract accounting, subscription accounting, delivery/term commencement, distributor arrangements, purchase accounting, capitalized software, bad debts, accrued liabilities, facilities management set-up costs, distributor commissions, corporate restructuring, goodwill, software impairment, interest income and expense, investments, foreign currency and income taxes. For example, rather than the reported 1999 net income of $44.7 million, TSA actually suffered a loss of almost $12 million, a difference of approximately $56 million. In 2000, TSA reported net income of $2.1 million, while in fact, the Company actually suffered a loss of more than $50 million. In 2001, the actual loss of $80 million was almost twice the reported loss of $43 million.

5. Not surprisingly, the effect on TSA's stock price of the announced restatement was devastating; on November 18, 2002, the share price fell as much as 31% from $9.50 per share to a low of $6.50 on November 20, 2002.

6. Based on the restatement issued by TSA on January 13, 2003 in a Form 10-K ("2002 10K"), the Company violated more than 12 separate provisions of GAAP, most of which are based on very basic accounting principles such as revenue recognition.

7. During the Class Period, the Defendants issued and/or failed to correct false and misleading financial statements, SEC filings and press releases concerning the Company's reported revenues and earnings directed to the investing public. These statements were each materially false and misleading when made because they failed to disclose or misrepresented the following adverse facts, among others: (i) the Company lacked sufficient internal controls and therefore was unable to understand its true financial condition; (ii) the Company's revenues and net income for the reported period was materially misstated due to the pervasive accounting discrepancies and booking of revenue; (iii) TSA's balance sheet and income statement were materially misstated at all relevant times; (iv) TSA's revenue recognition policy was not in compliance with Certified Public Accountants Statement of Position 97-2 as represented; (v) TSA was not appropriately accounting for companies acquired during its aggressive acquisition binge; and (vi) TSA, on a systematic and regular basis, was not adhering to generally accepted accounting principles ("GAAP").

8. TSA had an Audit Committee, the members of which were "outside" directors during the Class Period and were charged with enumerated responsibilities pursuant to TSA's Audit Committee Charter. Among its duties, the Audit Committee was to: review annual audited statements with management, including issues as to the adequacy of internal controls; review the quarterly financial statements prior to filing Forms 10-Q with both management and the independent auditor; meet periodically with TSA management to review major financial risk exposures; review major accounting principles and practices as suggested by the independent

auditor or management; consider any difficulties encountered during the course of audit work; and meet annually with the Chief Financial Officer and independent auditor in separate executive sessions. However, it is telling that the Audit Committee only held one meeting in fiscal 1999, one meeting in fiscal 2000 and two meetings in fiscal 2001.

JURISDICTION AND VENUE

9. The claims alleged herein arise under Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78t(a), and Rule 10b-5, 17 C.F.R. § 240.10b-5 promulgated thereunder.

10. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act, 15, U.S.C. § 78aa and 28 U.S.C. § 1331.

11. Venue is proper in this Judicial District pursuant to Section 27 of the Exchange Act and 28 U.S.C. § 1391(b). Many of the acts and transactions alleged herein, including the preparation and dissemination to the investing public of false and misleading information, occurred in substantial part in this Judicial District. Moreover, the Company's corporate headquarters are located in this Judicial District.

12. In connection with the acts, transactions and conduct alleged herein, Defendants, directly and indirectly, used the means and instrumentalities of interstate commerce, including the United States mails, interstate telephone communications and the facilities of the national securities exchanges.

THE PARTIES

13. Lead Plaintiff Genesee purchased shares of TSA Class A common stock as set forth in the accompanying Certification attached as Exhibit A and was damaged thereby.

14. The Plaintiffs set forth in Exhibit B also purchased or otherwise acquired the securities of TSA during the Class Period.

15. TSA maintains its corporate headquarters at 224 South 108th Avenue, Suite 7, Omaha, Nebraska. The Company develops, markets, installs and supports a broad line of software products and services primarily focused on facilitating electronic payments (e-payments) and electronic commerce (e-commerce). In addition to its own products, TSA distributes or acts as a sales agent for software developed by third parties. TSA's products and services are used principally by financial institutions, retailers and e-payment processors, in domestic and international markets. The Company's services and products are organized into the following business units: ACI Worldwide, Insession Technologies and IntraNet, Inc. During the Class Period, TSA common stock was actively traded on the NASDAQ National Market under the ticker symbol "TSAI" or "TSAIE".

16. (a) Defendant William E. Fisher ("Fisher") served as the Chairman of the Board of TSA from December 1, 1993 until May 1, 2001. He also served as TSA's President and Chief Executive Officer ("CEO") until November, 1999 and served again as CEO from May 22, 2000 until May, 2001. Fisher also served in various capacities, including President and later Chairman and Chief Executive Officer of ACI Worldwide from 1997 to 1999.

(b) Fisher historically received about 50% of his annual income from his bonus. Thus, for the fiscal year 1998, Fisher received a salary of $233,333 and a bonus of $255,768. In 1999, Fisher received a salary of $250,000 and a bonus of $231,489. In fiscal year 2000, however, Fisher's salary was $206,250, and his bonus was $69,833. In 2001, Fisher and TSA entered into a three-year employment agreement whereby Fisher was entitled to a base salary of $200,000, with a bonus based upon achieving certain objectives including sales,

revenue, pretax profit, backlog and/or cash flow ("bonus objectives"). Pursuant to a compensation agreement entered into in December 2000, Fisher also received a $3 million "loan" from TSA, of which one-half of the principal and interest (i.e., more than $1.5 million) would be forgiven in the event the closing bid for the Company's stock reached certain price targets. By fiscal 2001, Fisher had received the full amount of the loan.

(c) Fisher and his brother-in-law were principals of KFS Management, a company that leased two planes to TSA for $1,300 per flight, with a $65,000 advance payment quarterly by the Company. In 1999 alone, KFS Management received $476,944 pursuant to this arrangement.

(d) Fisher was a signatory to the Forms 10-K for the fiscal years ended September 30, 1999 and 2000 and was frequently quoted in TSA's press releases issued in connection with the Company's quarterly and annual financial results ("financial press releases").

17. (a) Defendant Greg Duman ("Duman") served as TSA's Chairman of the Board from March 2000 until August 13, 2002. Duman previously served as TSA's Vice President and Chief Financial Officer from 1993 through September 1998 and Executive Vice President - Lines of Business from September 1998 to April 2000. From 1983 to at least 1991, Duman was employed by ACI Worldwide, a division of TSA, serving as its Controller and then Vice President and Chief Financial Officer. Prior to 1983, he was employed by the now-defunct Arthur Andersen LLP, TSA's outside auditor until May 29, 2002, when Arthur Andersen was replaced by KPMG. (Arthur Andersen had lost its right to opine on public companies after being found guilty in federal court in Texas of falsifying financial information.) Just two and one half months later, on August 13, 2002, Duman resigned as a TSA director upon the news that TSA was conducting a re-audit of financial statements issued in certain prior periods.

(b) Like Fisher, historically, almost 50% of Duman's annual compensation was in the form of a bonus based upon achieving specified bonus objectives. For the fiscal years ended September 30, 1998 and 1999, Duman received a base salary of $118,334 and $165,000 respectively, with a bonus of $137,659 and $125,396, respectively.

(c) In his capacity as CFO, Duman was responsible for the Company's financial, treasury and accounting functions. According to a former TSA marketing representative, Duman was heavily involved in establishing the Company's revenue recognition practices. Duman was a signatory to the Forms 10-K for the fiscal years ended September 30, 1999, 2000 and 2001.

(d) Duman was also the Chief Financial Officer of Artios, Inc. ("Artios"), a company that in fiscal 2000, licensed three of TSA's software products in exchange for monthly fees of $50,000 over a three-year term. TSA received a three-year exclusive worldwide right to market Artios' services to retailers and financial institutions. For prospects referred to Artios, TSA received a fee of 15% to 25%. In fiscal 2002, Artios filed for bankruptcy.

18. (a) Defendant Dwight Hanson ("Hanson") was TSA's Chief Accounting Officer and Vice President of Corporate Finance from 1997 until February 24, 2000, in which capacity he was, according to a February 24, 2000 TSA press release, responsible for the Company's day-to-day accounting, finance, tax and corporate programs. On February 24, 2000, Hanson became TSA's Chief Financial Officer and Senior Vice President of Finance and Administration, responsible for all aspects of TSA's financial operations. As such, Hanson is responsible for the Company's financial, treasury and accounting functions. From 1981 to 1991, Hanson was an auditor with Coopers & Lybrand.

(b) Like Fisher and Duman, Hanson received an annual bonus based on achieving certain bonus objectives related to Company performance which represented a substantial portion of his annual compensation. For the fiscal years ended September 30, 1999, 2000 and 2001, Hanson received a base salary of $113,750, $131,250 and $140,000, respectively, with a corresponding bonus of $66,368, $69,279 and $78,198, respectively.

(c) Hanson was a signatory to many of the Forms 10-Q described herein and the Forms 10-K for the fiscal years ended September 30, 1999, 2000 and 2001. Hanson was also frequently quoted in TSA's financial press releases.

19. (a) Defendant David C. Russell ("Russell") served as a TSA director from 1993 until 2000, Chief Operating Officer from September 29, 1998 to May 22, 2000, Chairman from November 10, 1999 to May 21, 2000, and TSA's President from November 10, 1999 until May 9, 2001. Russell left the Company on May 9, 2001, just a week after Fisher left the Company. Russell also served as President and Chief Operating Officer of ACI Worldwide from April 17, 1996 to approximately 2001.

(b) Like the other officers of TSA, Russell received a large portion of his annual salary in the form of a bonus which was based on achieving certain bonus objectives related to Company performance. Thus, for the fiscal years ended September 30, 1998, 1999, 2000 and 2001, Russell received a base salary of $150,000, $172,500, $241,250 and $434,620, respectively, with a corresponding bonus of $154,255, $130,799, $118,714 and $51,932, respectively.

(c) Russell was a signatory to the Forms 10-K filed with the SEC for the fiscal years ended September 30, 1999 and 2000 and was frequently quoted in TSA's financial press releases.

(d) On February 1, 1999, Russell sold 151,896 shares of TSA Class A common stock for proceeds of $7,193,793.

20. Defendant Gregory Derkacht ("Derkacht") served as a director of TSA since December 2001, and President and Chief Executive Officer since December 5, 2001. Derkacht entered into a three-year employment agreement on January 2, 2002, which provides for an annual base salary of $300,000 with a quarterly maximum bonus of $37,500. During the 2002 fiscal year, Derkacht was quoted in TSA's financial press releases.

21. Defendant Edward Fuxa ("Fuxa") was TSA's Controller and, on February 24, 2000, was appointed Chief Accounting Officer. Fuxa was a signatory to many of the Forms 10-Q described herein, and the Forms 10-K for the fiscal years ended September 30, 2000 and 2001.

22. Defendants Fisher, Derkacht, Hanson, Duman, Fuxa and Russell are collectively referred to hereafter as the "Individual Defendants". During the Class Period, the Individual Defendants made various statements regarding TSA's financial results and condition, and compliance with applicable accounting principles in TSA press releases and in filings with the SEC which were relied upon by the investing public.

23. By reason of their positions with the Company, the Individual Defendants had access to internal Company documents, reports and other information, including periodic reports which contained the adverse non-public information concerning the Company's financial condition and accounting, and further participated in management and/or board of directors' meetings. As a result of the foregoing, they were responsible for the truthfulness and accuracy of the Company's public filings and press releases described herein.

24. TSA and the Individual Defendants, as officers and directors of a publicly held company, had a duty to promptly disseminate truthful and accurate information with respect to TSA and to promptly correct any public filings or statements issued by or on behalf of the Company which had become false or misleading.

25. Each of the Defendants knew or recklessly disregarded that the false and/or misleading statements and omissions complained of herein would adversely affect the integrity of the market for the Company's stock and would cause the price of the Company's common stock to become artificially inflated. Each of the Defendants acted knowingly or in such a reckless manner as to constitute a fraud and deceit upon Plaintiff and the other members of the Class.

26. Defendants are liable, jointly and severally, as direct participants in and co-conspirators of, the wrongs complained of herein.

27. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the false, misleading and incomplete information conveyed in the Company's public filings, press releases, interviews, and other statements, as alleged herein, were the collective actions of the Individual Defendants. Each of those officers and/or directors of TSA, by virtue of his high level position(s) with the Company, directly participated in the management of the Company, was directly involved in the day-to-day operations of the Company at the highest levels, and was privy to confidential proprietary information concerning the Company and its business, operations, sales, growth, financial statements, and financial condition which was handled at TSA's office in Omaha, as alleged herein. Moreover, by virtue of their participation in periodic meetings, the Individual Defendants knowingly or recklessly made the materially false and misleading statements alleged herein; were involved in drafting, producing,

reviewing and/or disseminating the statements; or approved or ratified the statements, in violation of the federal securities laws.

CLASS ACTION ALLEGATIONS

28. Lead Plaintiff brings this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and (b)(3) on behalf of the class (the "Class") consisting of all persons or entities who purchased TSA securities from January 21, 1999 through and including November 18, 2002. Excluded from the Class are the Defendants, their immediate families and any entity in which the Defendants have a controlling interest or is a parent or subsidiary of or is controlled by the Company.

29. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to Lead Plaintiff at this time and can only be ascertained through appropriate discovery, Lead Plaintiff believes there are, at a minimum, thousands of members of the Class who purchased or acquired TSA securities during the Class Period. As of August 12, 2002, the Company had approximately 35.4 million shares of its common stock outstanding and actively trading on the NASDAQ National Market, an efficient market.

30. Common questions of law and fact exist as to all members of the Class and predominate over any questions affecting solely individual members of the Class. Among the questions of law and fact common to the Class are:

(i) Whether the federal securities laws were violated by Defendants acts as alleged herein;

(ii) Whether the Company issued false and misleading financial statements during the Class Period;

(iii) Whether Defendants acted knowingly or recklessly in issuing false and misleading financial statements;

(iv) Whether the market prices of the Company's securities during the Class Period were artificially inflated because of the Defendants conduct complained of herein; and

(v) Whether the members of the Class have sustained damages and, if so, what is the proper measure of damages.

31. Lead Plaintiff's claims are typical of the claims of the members of the Class as Lead Plaintiff and the other members of the Class each sustained damages arising out of Defendants' wrongful conduct in violation of federal law as complained of herein.

32. Lead Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class actions and securities litigation. Lead Plaintiff has no interests antagonistic to or in conflict with those of the Class.

33. A class action is superior to other available methods for the fair and efficient adjudication of the controversy since joinder of all members of the Class is impracticable. Furthermore, because the damages suffered by the individual Class members are relatively small, the expense and burden of individual litigation make it impossible for the Class members individually to redress the wrongs done to them. Lead Plaintiff anticipates no unusual difficulties in the management of this action as a class action.

SUBSTANTIVE ALLEGATIONS

34. Beginning in 1999, TSA began to fall short of its financial targets. This had serious implications for the bonus component of the Individual Defendants' compensation structure, as well as certain requirements TSA had to satisfy in connection with a line of credit secured by certain receivables. For these reasons, and to meet Wall Street's expectations and

foster TSA's image as a growing public company, and maintain the Company's stock price so that its shares could be used to acquire other companies, Defendants engaged in a pattern of disregarding extremely well-established GAAP in order to report inflated financial results which were materially false.

35. Indeed, one former employee of TSA, who was a Senior Vice President of Business Development, indicated that TSA sales personnel pushed to close sales at the end of a quarter to ensure that targets were met and bonuses paid. This former employee stated that there were many instances where the Company determined a sale could be "booked" in a given quarter but later had to be adjusted.

36. One former TSA Project Manager stated that once a software contract was signed at the end of a quarter, his first act was to send a software "tape" to the customer in order for TSA to be able to recognize revenue. This former employee noted that he had heard discussions among TSA employees about blank tapes being sent out for revenue recognition purposes.

37. Moreover, according to another former employee of TSA who was employed by TSA in a finance capacity, 66-80% of ACI sales were finalized in the last ten days of the quarter.

38. On January 21, 1999, TSA issued a press release regarding the Company's financial results for its first quarter of fiscal 1999 ended December 31, 1998. For the first quarter of 1999, the Company reported record revenue of $86.1 million, an increase of 25 percent over the same quarter in the prior year. Pro forma net income for the quarter was $9.8 million and $.31 per share (diluted), compared with $7.7 million, or $.25 per share in the first quarter fiscal year 1998. Operating income was reported as $15.0 million for the quarter compared to

operating income of $11.9 million for the same quarter last year, an increase of 26 percent. Compared to net income and earnings per share for first quarter 1998, the current increase was 26 percent and 24 percent, respectively.

39. With respect to these financial results, defendant Fisher commented, "[w]e are pleased with our first quarter results of **strong revenue and earnings growth** as it provides a solid start for fiscal year 1999." (Emphasis added.)

40. TSA subsequently filed its Form 10-Q with the SEC on February 12, 1999, which reiterated the financial results announced in its January 21, 1999 press release ("1Q99 10Q"). The 1Q99 10Q, which was signed by defendant Hanson, and represented that it reflected all adjustments which were, in the opinion of management, necessary for a fair presentation of its financial position and operating results for the interim periods.

41. In the 1Q99 10-Q, TSA represented:

> The **growth in software license fee revenue** is the result of increased demand for the Company's BASE24 and System Solutions products accompanied by the continued growth of the installed base of customers paying monthly license fee (MLF) revenue. Contributing to the strong demand for the Company's products is the continued world-wide growth of electronic payment transaction volume and the growing complexity of electronic payment systems. MLF revenue was $12.0 million in the first quarter of fiscal 1999 compared to $10.0 million in the first quarter of fiscal 1998.
>
> **The growth in services revenue** for the first quarter of fiscal 1999 is the result of increased demand for technical and project management services which is a direct result of the increased installed base of the Company's products.
>
> **The increase in maintenance fee revenue** for the first quarter of fiscal 1999 is a result of the **continued growth** of the installed base of the Company's products.

(Emphasis added).

42. The statements referenced above in paragraphs 38 through 41 were each materially false and misleading when made because they failed to disclose and/or misrepresented the following adverse facts, among others: (i) the "strong revenue and earnings growth" lauded by Fisher was the result of violations of GAAP; (ii) the "growth" in software license and maintenance fees was the result of violations of GAAP; (iii) the 1Q99 10Q did not reflect all necessary adjustments as represented by defendants; (iv) the Company's revenues, operating income and net income for the 1999 first quarter were materially overstated due to, inter alia, defendants' improper revenue recognition policy; (v) the Company lacked sufficient internal controls and therefore was unable to report its true financial results; (vi) because of the pervasive accounting errors and fraudulent booking of revenue, TSA's balance sheet and income statement in the 1Q99 10Q were materially misstated at all relevant times; and (vii) TSA, on a systematic and regular basis, was not adhering to GAAP.

43. As a result of TSA's glowing first quarter 1999 financial results, analysts were upbeat on the Company. For example, Henry M. Blodget, the internet analyst currently under siege for allegedly misleading investors, issued a January 22, 1999 CIBC Oppenheimer Corp. report rating TSA a "Strong Buy" due to its "solid fiscal Q1 and revenue exceeded expectations . . . ." Blodget estimated 1999 earnings of $1.40 per share.

44. Similarly, Gary Craft, an analyst at BancBoston Robertson Stephens, rated TSA a "Strong Buy" on February 8, 1999, noting, "[w]e are enthusiastically recommending the shares of [TSA] as a way to play the exciting industry of electronic payments . . . . Having significantly underperformed the market over the past two years, these shares could easily trade to $60-65, in our view, before being considered fairly valued." TSA was very sensitive to maintaining favor in the eyes of "Wall Street"; at least four former employees identified herein

noted that the Company was aggressive about trying to close sales at the end of each quarter in order to recognize revenue.

45. On April 22, 1999, the Company announced its financial results for the second quarter of fiscal 1999 ended March 31, 1999. The Company reported record earnings of $10.9 million or $.34 per share (diluted) on revenue of $87 million, compared with $8.3 million or $.27 per share (diluted) in the second quarter 1998. Operating income was $17 million for the quarter, compared with operating income of $12.5 million for the same quarter in the prior year.

46. In the April 22, 1999 press release, Defendant Fisher stated:

> Our second quarter results reflect the underlying strength in our unique financial model. We continue to build on our **strong financial performance** based on our high retention of blue chip global customers that consistently add functionality and volume capacity to meet the growing electronic payments environment.

47. Subsequently, TSA filed its Form 10-Q with the SEC on or about May 17, 1999, which reiterated the financial results announced in its April 22, 1999 press release ("2Q99 10Q"). The 2Q99 10Q, signed by defendant Hanson, represented that the financial results reflected all necessary adjustments.

48. In the 2Q99 10Q, defendants discussed revenue recognition pursuant to SOP 97-2 which, although newly enacted, merely codified basic generally accepted accounting principles that had been in existence for almost a decade:

> In the first quarter of fiscal 1999, the Company adopted American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition" (SOP 97-2). SOP 97-2 provides guidance on applying generally accepted accounting principles in recognizing revenue for software arrangements entered into by the Company after September 30, 1998. The Company has analyzed the revenue recognition requirements of SOP 97-2 and has concluded that the Company's previous revenue recognition policy was primarily in compliance with SOP 97-2.

> Under SOP 97-2, one requirement for recognizing revenue under software arrangements is that the software fees are fixed or determinable. SOP 97-2 specifies that extended payment terms in a software licensing agreement may indicate that the software fees are not deemed to be fixed or determinable and, if so, the software fee should be recognized as the payments become due. However, SOP 97-2 specifies that if the company has a standard business practice of using extended payment terms in software arrangements and has a history of successfully collecting the software fees under the original payment terms of the arrangement without making concessions, the Company can overcome the presumption that the software fees are not fixed or determinable. If the presumption is overcome, the Company is required to recognize the software fees when the other SOP 97-2 revenue recognition criteria are met.
>
> The Company has concluded that for certain fiscal 1999 software arrangements with extended payment terms, revenue should be recognized upon delivery in accordance with the provisions of SOP 97-2 as previously described. Software license fee revenue, net of third party royalties, recognized for the three and six months ended March 31, 1999, related to these arrangements totaled $14.4 million and $18.6 million, respectively.

49. The statements referenced above in paragraphs 45 through 48 were each materially false and misleading when made because they failed to disclose or misrepresented the following adverse facts, among others: (i) TSA's "strong financial performance" was the result of improperly recognizing revenue; (ii) TSA's 2Q99 10Q did not reflect all necessary adjustments, as represented by defendants; (iii) the Company's revenues, operating income and net income for the second quarter of 1999 were materially misstated due to pervasive accounting errors and the early booking of revenue in violation of GAAP; (iv) the 2Q99 10Q balance sheet and income statement were materially misstated at all relevant times; (v) TSA's revenue recognition policy was not in compliance with SOP 97-2, as represented in the 2Q99 10Q as TSA did not have a history of collecting software fees without making concessions; (vi) the Company

lacked sufficient internal controls and therefore was unable to report its true financial condition; and (vii) TSA, on a systematic and regular basis, was not adhering to GAAP.

50. On July 22, 1999, the Company announced its financial results for the third quarter ending June 30, 1999. The Company reported net income of $11.8 million, or $.36 per share (diluted), on revenues of 489.1 million for the current quarter as compared with $8.6 million or $.27 per share (diluted) in the third quarter 1998. Operating income was $18.6 million for the quarter, compared with operating income of $13.1 million for the same quarter last year, an increase of 42 percent.

51. With respect to these financial results, defendant Fisher commented in the July 22, 1999 press release:

> **We have completed another strong quarter, with record revenues, operating margin and net income and excellent operating cash flow.** We are continuing to invest in our software solutions and building ACI Worldwide's direct sales and distribution channel in the international markets. We believe TSA is strategically positioned with best of breed software solutions for the continued shift from paper to electronic payments and commerce.

(Emphasis added).

52. Subsequently, TSA filed its Form 10-Q with the SEC on or about August 16, 1999, which reiterated the financial results announced in its July 2, 1999 press release ("3Q99 10Q"). The 3Q99 10Q was signed by defendant Hanson and represented that all necessary adjustments had been taken.

53. Analysts continued to rate TSA a "Strong Buy" after absorbing the Company's third quarter 1999 financial results. An analyst at Advest, Inc., on July 26, 1999,

noted that TSA reported record revenues of $89.1 million, or $1 million ahead of Advest, Inc.'s own forecasted results.

54. The statements referenced above in paragraphs 50 through 52 were each materially false and misleading when made because they failed to disclose or misrepresented the following adverse facts, among others: (i) the Company's revenues, operating income and net income for the third quarter of 1999 were materially overstated due to the pervasive accounting errors and early booking of revenue in violation of GAAP; (ii) TSA's "strong quarter" with "record revenues, operating margin and net income" was the result of improperly recognizing revenue, in violation of GAAP; (iii) defendants did not make all necessary adjustments to the financial results set forth in the 3Q99 10Q, as represented; (iv) the balance sheet and income statement in the 3Q99 10Q were materially misstated; (v) TSA lacked sufficient internal controls and therefore, was unable to report its true financial condition; and (vi) TSA, on a systematic and regular basis, was not adhering to GAAP.

55. On September 30, 1999, an analyst at Robert W. Baird & Co., Inc., L. L. Needles, opined:

> [TSA] should be able to sustain a 25%+ growth rate over the next several years, as demand for [TSA's] software continues to be strong, and the company is well positioned for the shift from paper to electronic payments and commerce.

56. On October 28, 1999, the Company announced its financial results for the fourth quarter and full fiscal year ending September 30, 1999. The Company reported record earnings of $12.5 million or $.38 per share (diluted) on record revenues of $92.6 million for the fourth quarter of fiscal year 1999, compared with net income $6.8 million or $.22 per share (diluted). For the fourth quarter of 1999, software license fees of $60.1 million increased 33

percent over the fourth quarter of fiscal year 1998. Operating income was $19.7 million for the quarter, compared with operating income of $14.0 million for the same quarter last year, an increase of 41 percent. For the 1999 fiscal year, TSA reported revenues of $354.8 million compared to $299.2 million in 1998, operating income of $70.3 million, compared with $51.5 million for fiscal year 1998 and net income of $44.6 million or $1.38 per share, compared with $31.4 million or $1.01 (diluted) for 1998.

57. In the October 28, 1999 press release, Defendant Fisher commented on these financial results as follows:

> **We are pleased to report our fourth quarter results with record highs in revenue, operating margin and net income.** We are cautiously optimistic for fiscal year 2000 with projected revenue of $390 million to $410 million. Our projected revenue is based on a pipeline of business and contracted but not yet recognized backlog for fiscal year 2000. **Based on our revenue projections, our estimates for earnings per share on a diluted basis are $1.65 to $1.75 for fiscal year 2000.**

58. Thereafter, TSA filed a Form 10-K with the SEC on or about December 29, 1999 ("1999 10K") which reiterated the financial results for fiscal year 1999 that were disseminated in the Company's October 28, 1999 press release detailed above. This filing was signed by, inter alia, defendants Russell, Fisher, Duman and Hanson.

59. In the 1999 10-K, TSA expanded upon its method of product pricing and revenue recognition as follows and which was also set forth in each subsequent quarterly and annual SEC filing by TSA described herein:

> PRODUCT PRICING AND REVENUE RECOGNITION. The Company's primary software license fees pricing method is transaction sensitive, whereby products are priced based upon the number of transactions processed by the customer ("transaction-based pricing"). Under this method, customers license the product by paying an Initial License Fee (ILF), where

the customer pays a significant portion of the total software license fees at the beginning of the software license term, and a Monthly License Fee (MLF), where the customer pays a portion of the software license fees over the software license term. The payment of the ILF and MLF allows the customer to process a contractually predetermined maximum volume of transactions per month for a specified period of time. Once the transaction volume exceeds this maximum volume level, the customer is required to pay an additional license fee which is in the form of a Capacity License Fee (CLF), collected at the beginning of the period the customer contracts for an incremental volume level, and a Capacity Monthly License Fee (CMLF), collected over the software license term. There is a separate license fee for each incremental volume level. In addition to transaction-based pricing, the Company offers a hardware specific pricing method whereby the product is priced on a per copy basis and tiered to recognize different performance levels of the processing hardware ("designated equipment group pricing"). Under designated equipment group pricing, the customers pay a license fee (in the form of an ILF and MLF) for each copy of the software the customers have licensed for a specified period of time. Under both the transaction-based pricing method and the designated equipment group pricing method, the Company offers a paid up front (PUF) payment option, whereby the present value of the MLF or CMLF is due at the beginning of the software license term. The standard software license term under either pricing method is typically 60 months, but may extend over a shorter or longer period. Other elements of the software licensing arrangement typically include postcontract customer support (maintenance) and, occasionally, services.

Beginning in fiscal 1999, the Company adopted American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition" (SOP 97-2). SOP 97-2 provides guidance on applying generally accepted accounting principles for software revenue recognition transactions. The primary software revenue recognition criteria outlined in SOP 97-2 include: evidence of an arrangement; delivery; fixed or determinable fees; and collectibility.

SOP 97-2 specifies that extended payment terms in a software licensing arrangement may indicate that the software license fees are not deemed to be fixed or determinable. In addition, if payment of a significant portion of the software license fees is not due until more than twelve months after delivery, the software license fees should be PRESUMED not to be fixed or

determinable, and thus should be recognized as the payments become due. However, SOP 97-2 specifies that if the Company has a standard business practice of using extended payment terms in software licensing arrangements and has a history of successfully collecting the software license fees under the original terms of the software licensing arrangement without making concessions, the Company can overcome the presumption that the software license fees are not fixed or determinable. If the presumption is overcome, the Company should recognize the software license fees when all other SOP 97-2 revenue recognition criteria are met.

The Company has concluded that for certain software arrangements entered into after October 1, 1998 with extended guaranteed payment terms, the "fixed or determinable" presumption has been overcome and software license fees should be recognized upon meeting the SOP 97-2 revenue recognition criteria ("guaranteed software license fees"). The present value of the guaranteed software license fees, net of third party royalties, recognized in fiscal 1999 totaled approximately $60.5 million. The discount rates used to determine the present value of the guaranteed software license fees, representing the Company's incremental borrowing rates, ranged from 9.5% to 10.25%. The portion of the guaranteed software license fees that has been recognized by the Company, but not yet billed, is reflected in accrued receivables in the accompanying consolidated balance sheets.

Failing to overcome the "fixed or determinable" presumption would have resulted in the Company recognizing the ILF and CLF components of the software license fees related to these certain software arrangements when the software was delivered (or in the reporting period that the incremental volume 18 level was effective), and the MLF and CMLF components of the software license fees would have been recognized ratably over the software license term as they were billed. Software license fees related to those software arrangements that would have been recognized in fiscal 1999 had the Company not been able to overcome the presumption that the software license fees were not fixed or determinable fees would have been approximately $5.1 million.

(Emphasis added).

60. The statements referenced above in paragraphs 56 through 59 were each materially false and misleading when made because they failed to disclose or misrepresented the following adverse facts, among others: (i) Fisher's statement that TSA had achieved "record highs in revenue, operating margin and net income" was false, as those results were the result of violating GAAP; (ii) TSA had no basis to conclude that it had overcome the "fixed and determinable" presumption under SOP 97-2 as represented in the 1999 10K; (iii) the Company's revenues, operating and net income for the fourth quarter and fiscal year 1999 were materially overstated due to the pervasive accounting errors and early booking of revenue in violation of GAAP; (iv) the Company lacked sufficient internal controls and was unable to report its true financial condition; (v) Fisher had no reasonable basis to proffer projections for fiscal year 2000 given the insufficiency of TSA's internal controls and the accounting irregularities; (vi) TSA's balance sheet and income statement in the 1999 10K were materially misstated at all relevant times because of defendants' violations of GAAP; and (vii) TSA, on a systematic and regular basis, was not adhering to basic GAAP, which resulted in the elimination of $75.2 million in improperly recognized revenue in 1999 alone and the restatement of 1999 net income of $44.7 million to a net loss of almost $12 million.

61. On January 20, 2000, TSA issued a press release announcing its financial results for the first quarter of 2000 ended December 31, 1999. For the quarter, TSA reported revenues of $67.1 million, net loss of $1.4 million or $.04 per share, compared with net income of $9.4 million or $.30 per diluted share for the same period in the prior year. The Company reported an operating loss of $3.3 million, compared with operating income of $15 million for the same period in the prior year. The disappointing results were attributed to anticipation of crossover to "Y2K."

62. In the January 20, 2000 press release, defendant Russell stated:

> While we are disappointed with the results of our first quarter, we feel strongly that it is primarily the result of an event we won't face again . . . **Our position in the market continues to expand, and we expect great success from key initiatives under way to address the exploding e-commerce and e-payments marketplace. Our confidence, in part, stems from the fact that our backlog remains strong, and positions us for success during the balance of 2000.**

(Emphasis added.)

63. TSA subsequently filed its Form 10-Q for the quarter ended December 31, 1999 with the SEC on February 14, 2000 ("1Q00 10Q"). The 1Q00 10Q was signed by defendant Hanson and represented that the financial statements contained therein reflected all necessary adjustments.

64. The statements referenced above in paragraphs 61 through 63 were each materially false and misleading when made because they failed to disclose or misrepresented the following adverse facts, among others: (i) that the Company's revenues, operating income and net income for the first quarter of 2000 were materially overstated by $6.5 million, $6.3 million, and $7.2 million, respectively, due to the pervasive accounting errors and early booking of revenue in violation of GAAP; (ii) because of these accounting irregularities, the balance sheet and income statement in the 1Q00 10Q were materially misstated at all relevant times; (iii) TSA, on a systematic and regular basis, was not adhering to GAAP; (iv) the Company lacked sufficient internal controls which not only made it unable to report its true financial condition but made it impossible for Russell to predict that TSA was positioned for success in 2000; and (v) the financial statements in the 1Q00 10Q did not reflect all necessary adjustments, as represented therein.

65. On April 25, 2000, TSA issued a press release announcing its financial results for the second quarter of fiscal 2000 ended March 31, 2000. TSA announced it had restructured its business into six vertically integrated units. The Company announced revenues of $75.4 million and net income of $1.6 million or $.05 per diluted share, compared to net income of $10.9 million or $.34 per share in 1999. Operating income was $2 million for the quarter, compared with $17 million for the same period in the prior year. The results included software and goodwill amortization from the acquisitions of SDM International Inc. and Insession Inc.

66. In the April 25, 2000 press release, defendant Russell stated:

> We . . . have now structured the company to help create greater focus and drive higher overall growth, based on significant prospective investment in our newer business units.
>
> * * *
>
> Our products and technologies, we believe, are in a strong position to address our customers' emerging e-payment needs, and we will continue to expand our footprint in the financial services segment.
>
> We are confident that our new strategy designed to drive growth will pay dividends for our shareholders. We are already seeing exciting market activity and wins in our new business units. As you can see in the segmented financials in this release, we saw **nice revenue growth year over year** in several of our new business units without significant investment. With a higher level of investment in all of our new businesses, we believe that we can position each of them to enjoy the same level of success we have had with ACI Worldwide over the years.

(Emphasis added.)

67. In this same press release, defendant Hanson noted in relevant part:

> In addition, as we shift our business model to put an increased emphasis on new products and new markets which have longer sales and delivery cycles, we expect revenue recognition will get

> pushed out over longer time periods as compared to revenue recognized for our traditional products. Looking forward to the third fiscal quarter, we expect gradual improvement in our core business, and **expect revenue to be $75 to 80 million for fiscal Q3**.

(Emphasis added.)

68. Thereafter, on May 15, 2000, TSA filed its Form 10-Q for the second quarter, which reiterated the financial information contained in the April 25, 2000 press release ("2Q00 10Q"). The 2Q00 10Q was signed by Fuxa and represented that the financial statements therein reflected all necessary adjustments.

69. The statements referenced above in paragraphs 65 through 68 were each materially false and misleading when made because they failed to disclose or misrepresented the following adverse facts, among others: (i) the "nice revenue growth year over year" discussed by defendant Russell was the result of improper accounting practices, not TSA's revamped restructured business; (ii) defendant Hanson, due to the improper accounting practices and lack of sufficient internal controls, had no reasonable basis to project third quarter revenues; (iii) the Company's revenues, operating income and net income for the second quarter of 2000 were materially overstated by $11.5 million, $14.6 million, and $13.7 million, respectively, due to the pervasive accounting errors and early booking of revenue in violation of GAAP; (iv) TSA's balance sheet and income statement in the 2Q00 10Q were materially misstated; (v) TSA, on a systematic and regular basis, was not adhering to GAAP; and (vi) all necessary adjustments in the financial statements in the 2Q00 10Q had not been taken, as represented by defendants therein; and (vii) GAAP had not been properly applied in the presentation of information of SDM International Inc. and InSession Inc.

70. In June 2000, TSA announced the filing of a registration statement for a proposed initial public offering of InSession Technologies, Inc., a wholly owned subsidiary of the Company. Ultimately, on September 14, 2000, TSA "postponed" the planned IPO of InSession due to "unfavorable market conditions."

71. On July 20, 2000, the Company issued a press release announcing its third quarter results for the period ended June 30, 2000. The Company announced revenue of $78.9 million and net income of $1 million or $.03 per diluted share, compared with net income of $11.8 million or $.36 per diluted share. Operating income was $1.9 million, compared with $18.6 million for the same quarter in the prior year.

72. In the July 20, 2000 press release, defendant Fisher stated:

> We are retaining our already **strong position** with our core customer base, and we are **gaining market share**. We also had a nice **up tick in our services revenue during the quarter, associated with new customer projects, new product sales and new services engagements with our current customers**.
>
> * * *
>
> Consistent with our belief that momentum is returning to our core business, we expect revenue of $80-$85 million and pro forma EPS of $.10-$.14 for the fourth quarter of fiscal 2000. For 2001, we expect revenue of $340 million to $365 million and a pro forma EPS of $.55-$.70. We are excited about the increase in activity in our core markets, and are confident in our ability to leverage our position to win in the emerging world of e-commerce and e-payments.

73. The Company filed its Form 10-Q for the third quarter 2000 with the SEC on or about August 18, 2000 ("3Q00 10Q"). The 3Q00 10-Q reiterated the financial results announced in its July 20, 2000 press release and was signed by Fuxa. The 3Q00 10-Q represented that the financial statements therein reflected all necessary adjustments.

74. The statements referenced above in paragraphs 71 through 73 were each materially false and misleading when made because they failed to disclose or misrepresented the following adverse facts, among others: (i) defendant Fisher's representations that TSA was retaining its "strong position," "gaining market share" and experiencing an increase in revenues were materially false and misleading in that defendants violated GAAP to achieve the reported financial results; (ii) the Company's revenues, operating income and net income for the third quarter of 2000 were materially overstated by $14 million, $18.1 million, and $17 million, respectively, due to the pervasive accounting errors and early booking of revenue in violation of GAAP; (iii) the Company lacked sufficient internal controls and therefore was unable to report its true financial condition; (iv) because of these problems, the amounts reported in TSA's balance sheet and income statement in the 3Q00 10Q were materially misstated at all relevant times; (v) the 3Q00 10Q did not reflect all necessary adjustments in the financial statements; and (vi) TSA, on a systematic and regular basis, was not adhering to GAAP.

75. On October 26, 2000, the Company announced its financial results for the fourth quarter and fiscal year 2000, for the period ending September 30, 2000. TSA reported revenue of $82.2 million for the fourth quarter and net income of $928,000 or $.03 per diluted share, compared with $12.5 million or $.38 per diluted share for the fourth quarter 1999. Operating income was $1.2 million, compared with $19.7 million in the prior year.

76. For the 2000 fiscal year, defendants reported revenues of $304 million and net income of $2.1 million or $.07 per diluted share, compared with revenue of $355 million and net income of $44.6 million or $1.38 per diluted share in the prior year in the October 26, 2000 press release.

77. In the October 26, 2000 press release, defendant Fisher stated:

> For the year ending September 30, 2001, we expect the momentum in our business to drive our financials in the core business to historical levels. We are focusing to make sure it is a year our shareholders have come to expect. **Continued growth in our core business**, our recently announced acquisition of MessagingDirect and sound cost management processes will help us succeed. Based on that, **we are raising our revenue forecast for fiscal 2001 to between $345 million and $370 million, an increase of between 13 percent and 22 percent over fiscal 2000. We are leaving our pro forma EPS expectations the same, at between $.55 and $.70, which reflects an improvement to our previously forecasted EPS**, offset by the expected dilution of the MessagingDirect acquisition. We continue to believe in our business model, and are committed to making it work for our shareholders.

(Emphasis added).

78. TSA filed its Form 10-K with the SEC on or about December 29, 2000 ("2000 10K") which reiterated the financial results for fiscal year 2000 that were disseminated in the Company's October 26th press release detailed above. This filing was signed by, inter alia, defendants Fisher, Russell, Duman, Hanson and Fuxa.

79. The statements referenced above in paragraphs 75 through 78 were each materially false and misleading when made because they failed to disclose or misrepresented the following adverse facts, among others: (i) TSA's "continued growth in the core business" was due to violating GAAP; (ii) defendant Fisher had no reasonable basis to raise TSA's revenue forecast, as the Company had inadequate internal controls and lacked the ability to accurately report actual results, much less project future financial results; (iii) the Company's revenues, operating income and net income for the fourth quarter and 2000 fiscal year were materially overstated due to the pervasive accounting errors and early booking of revenue in violation of GAAP; (iv) the balance sheet and income statement in TSA's 2000 10K were materially misstated at all relevant times; (v) TSA's revenue recognition policy was not in compliance with

SOP 97-2 as represented; (vii) TSA, on a systematic and regular basis, was not adhering to basic GAAP and had to restate fiscal 2000 net income from approximately $2.1 million to a loss of over $50 million, including the write-off of $49 million of improperly recognized revenue; and (viii) TSA was not appropriately accounting for companies acquired.

80. On January 18, 2001, the Company announced its financial results for the first quarter 2001 for the period ending December 31, 2000. The Company announced that its revenue for the first quarter of fiscal 2001 increased 11 percent over revenue for the first quarter of fiscal 2000, to $74.6 million. TSA reported a net loss for the quarter of $14.4 million or $.45 per diluted share, compared with a net loss of $1.4 million or $.04 per diluted share for the first quarter of 2000. Software license fees for the quarter were $42.5 million, an increase of 20 percent from the prior year. Software license fees for the quarter for ACI Worldwide, the consumer e-payments unit, were $33.5 million, an increase of 38 percent from the same quarter last year.

81. With respect to these financial results, defendant Fisher commented as follows:

> We're pleased with our overall results in Q1. … **TSA's leadership position continues to grow** in the consumer e-payments market. We are winning in the face of significant competition from traditional and new competitors.
>
> * * *
>
> We were at the low end of our revenue expectations for Q1, but our pro forma EPS was better than expected …. We expect revenue for the second quarter to be between $75 and $80 million, and pro forma EPS of $.04 to $.08 per share. In addition, we are reducing our fiscal 2001 guidance to $320 to $340 million in revenue, with pro forma EPS of $.50 to $.65.

(Emphasis added).

82. The Company filed its Form 10-Q with the SEC on or about February 14, 2001 ("1Q01 10Q"), which reiterated the financial results announced in its January 18th press release. The 1Q01 10Q was signed by Fuxa and represented that all necessary adjustments had been taken.

83. The statements referenced above in paragraphs 80 through 82 were each materially false and misleading when made because they failed to disclose or misrepresented the following adverse facts, among others: (i) defendant Fisher's statement that "TSA's leadership position continues to grow . . ." was materially false and misleading, as any "growth" was attributable to improper accounting practices; (ii) the Company lacked sufficient internal controls to have a basis for Fisher to project future results; (iii) the Company's revenues and net income for the 2001 first quarter were materially overstated by $3.9 million and $4 million, respectively, due to the pervasive accounting errors and early booking of revenue in violation of GAAP; (iv) TSA's balance sheet and income statement in the 1Q01 10Q were materially misstated at all relevant times; (iv) the 1Q01 10Q financial statements did not reflect all necessary adjustments; (v) TSA, on a systematic and regular basis, was not adhering to GAAP.

84. On May 1, 2001, TSA announced its financial results for the second quarter of fiscal 2001, for the period ending March 31, 2001. The Company announced that revenue was $76.5 million, with pro forma earnings of $.06, in line with guidance and $.01 better than analysts' consensus estimates. Operating cash flow was $8 million, the best cash flow results since the quarter ending September 30, 1999.

85. With respect to these financial results, defendant Hanson commented:

> Overall, we are pleased with our results this quarter. In what continues to be a tough market, **we were able to meet our objectives for the quarter. We were able to generate over $8**

> **million in operating cash flow, our best cash performance since the fourth quarter of fiscal 1999**.

(Emphasis added).

86. The Company also announced on May 1, 2001 that Fisher was stepping down as Chairman and Chief Executive Officer.

87. The Company filed its Form 10-Q with the SEC on or about May 15, 2001, which reiterated the financial results announced in its May 1st press release ("2Q01 10Q"). The 2Q01 10Q was signed by Fuxa and represented that all necessary adjustments had been taken.

88. The statements referenced above in paragraphs 84, 85 and 87 were each materially false and misleading when made because they failed to disclose or misrepresented the following adverse facts, among others: (i) TSA did not "meet its objectives," or generate over $8 million in operating cash flow as noted by Hanson, as defendants achieved these results solely from violating GAAP; (ii) TSA's balance sheet and income statement in the 2Q01 10Q were materially misstated at all relevant times; (iii) the 2Q01 10Q did not reflect all necessary adjustments; (iv) TSA, on a systematic and regular basis, was not adhering to basic GAAP.

89. On June 7, 2001, analyst Ryan Sailer at Kirkpatrick Pettis initiated coverage of TSA with a "Hold" rating, due in part to the change in management at the Company. Sailer noted that in the face of a difficult year 2000, TSA "… managed to post revenue growth in the first two quarters of fiscal 2001" and opined that the worst was behind TSA.

90. On July 31, 2001, the Company announced its financial results for the third quarter of fiscal 2001 ending June 30, 2001. The Company reported that revenue was $73.7 million, in line with revised guidance of $72 to $74 million. Pro forma earnings per diluted share

were $.04, at the high end of the Company's revised earnings guidance range. Operating cash flow $15 million, purportedly the best cash flow results since the quarter ending September 1999.

91. With respect to this, Hanson commented as follows:

> **We generated over $15 million in operating cash flow, our best cash performance in the past two fiscal years, and our cash balance is now $28 million, current billed receivables are down 19 percent compared to the third quarter of fiscal 2000, and down 20 percent sequentially from the second quarter of fiscal 2001.** In addition, we had favorable improvement in our DSO and DBO levels, with our DBO levels at their lowest point in over two years, and well below our goal of 60 days. We began to see some benefit from our restructuring efforts in Q3, with pro forma expenses down two percent year-over-year. This should improve more in Q4 and into next year.

(Emphasis added).

92. The Company filed its Form 10-Q with the SEC on or about August 14, 2001 ("3Q01 10Q"), which reiterated the financial results announced in its July 31st press release. The 3Q01 10Q was signed by Fuxa and represented that the financial statements contained therein reflected all necessary adjustments.

93. The statements referenced above in paragraphs 90 through 92 were each materially false and misleading when made because they failed to disclose or misrepresented the following adverse facts, among others: (i) defendant Hanson's recitation of financial results was materially false and misleading, as the operating cash flow and purported "benefit from restructuring efforts," was, in fact, the result of accounting improprieties; (ii) the Company's revenues, operating income and net income for the third quarter of 2001 were materially overstated by $5.7 million, $2.5 million, and $5.6 million, respectively, due to the pervasive accounting errors and early booking of revenue in violation of GAAP; (iii) TSA's balance sheet and income statement in the 3Q01 10Q were materially misstated at all relevant times; (iv) the

Company lacked sufficient internal controls and therefore was unable to understand its true financial condition; and (v) the 3Q01 10Q did not reflect all necessary adjustments.

94. On October 30, 2001, the Company announced its financial results for the fourth quarter and fiscal year 2001 ended September 30, 2001. The Company announced that revenue for the fourth quarter of fiscal 2001 was $75 million. TSA reported a quarterly net loss of $3.5 million or $.10 per diluted share, compared with net income of $928,000 or $.03 per diluted share for the 2000 fiscal year. For the fiscal year, TSA reported revenue of $300 million, and a net loss of $43 million or $1.26 per diluted share, compared with revenue of $303.5 million and net income of $2.1 million or $.07 per share for the 2000 fiscal year.

95. On December 27, 2001, TSA filed its Form 10-K for the 2001 fiscal year with the SEC, which was signed by, inter alia, defendants Hanson, Duman and Fuxa.

96. The statements referenced above in paragraphs 94 and 95 were each materially false and misleading when made because they failed to disclose or misrepresented the following adverse facts, among others: (i) the Company's revenues, operating income and net income for the fourth quarter and 2001 fiscal year were overstated due to the pervasive accounting errors and early booking of revenue; (ii) TSA's balance sheet and income statement in the 2001 10K were materially misstated at all relevant times; (iii) TSA's revenue recognition policy was not in compliance with SOP 97-2 as represented; (iv) TSA was not appropriately accounting for companies acquired during its aggressive acquisition binge during the Class Period; (v) TSA, on a systematic and regular basis, was not adhering to GAAP, which ultimately led TSA to restate 2001 net income from a loss of $43 million to a loss of over $80 million; and (vi) the Company lacked sufficient internal controls and therefore was unable to report its true financial condition.

97. On January 29, 2002, TSA issued a press release announcing its results for the 2002 first quarter ended December 31, 2001. Revenue for the 2002 first quarter was $65.3 million. The Company reported a loss of $28.5 million or $.81 per share. Operating cash flow was reported as $14.2 million.

98. According to the January 29, 2002 press release, the first quarter results reflected the adoption of new generally accepted accounting principles regarding goodwill impairment for which TSA had independent appraisals performed on each unit that contained goodwill. As a result, TSA determined to write down $25.7 million of goodwill from the acquisition of MessagingDirect, Ltd. The Company also recorded a write down in the carrying value of TSA's investment in Nestor, Inc.

99. In the January 29, 2002 press release, defendant Hanson stated:

> **For the second quarter, we expect revenue to be in the range of $66 to $70 million and pro forma EPS of $.04 to $.10. In addition, we are updating our fiscal 2002 guidance to $270 to $290 million in revenue with pro forma EPS of $.33 to $.49.** This guidance for the second quarter and the full year reflects our view of the impact of the ongoing reduction in IT spending levels that we have seen in the marketplace.

(Emphasis added).

100. Thereafter, the Company filed its Form 10-Q with the SEC on or about February 12, 2002, which reiterated the financial results announced in its January 29, 2002 press release ("1Q02 10Q"). The 1Q02 10Q was signed by Fuxa and represented that all necessary adjustments had been taken.

101. Also on January 29, 2002, Credit Suisse First Boston issued a report with a "Hold" rating on TSA due to the weak economy, but left unchanged Credit Suisse First Boston's 2002 quarterly earnings estimates, which were in line with TSA guidance.

102. The statements referenced above in paragraphs 97 through 100 were each materially false and misleading when made because they failed to disclose or misrepresented the following adverse facts, among others: (i) the write-down of MessagingDirect, Ltd. and Nestor was insufficient, as GAAP had not been properly applied; (ii) Hanson had no basis to forecast future financial results, as TSA lacked sufficient internal controls, was unable to report its true financial condition, and had no reasonable basis for the forecast; (iii) TSA's balance sheet and income statement in the 1Q02 10Q were materially misstated at all relevant times; and (iv) TSA, on a systematic and regular basis, was not adhering to GAAP.

103. On April 30, 2002, TSA issued a press release announcing its financial results for the 2002 second quarter ended March 31, 2002. The Company reported revenue of $65.7 million and net income of $4.5 million or $.13 per share. Operating cash flow was reported to be $11.3 million.

104. In the April 30, 2002 press release, Derkacht stated:

> We had solid results for the quarter, despite continued softness in the IT spending environment, revenue was up slightly on a sequential basis, even considering the sale of Regency during the quarter. **Our operating cash flow was again very strong, and our balance sheet is in good shape.** The management team is working hard to drive internal efficiencies and, consequently, our margins have improved. We will continue these efforts to ensure that we gain the leverage inherent in our model once the market picks up.

(Emphasis added).

105. Commenting on the 2002 second quarter results, defendant Hanson stated:

> **For the third quarter, we expect revenue to be in the range of $61.0 to $66.0 million and pro forma EPS of $.03 to $.09. In addition, we expect fourth quarter revenue to be $62.5 to $67.5 million and pro forma EPS of $.08 to $.13 ….** To help manage through these uncertain times, we will continue to adjust our cost

> structure to levels that allow us to maintain and improve profitability and cashflow. The Company has turned the corner in terms of its ability to generate profits and cashflow. **Now we will move to the next stage of our strategy, which is to increase our recurring revenue levels, increase our operating margins and position ourselves for sustained long-term growth. TSA has proven that it can generate ongoing recurring sources.** Continued strengthening of our financial metrics will not only allow us to deliver stronger earnings, but give us better flexibility in terms of our strategic new markets that can drive us to the next level of corporate growth and shareholder value.

(Emphasis added).

106. On the following day, May 1, 2002, Credit Suisse First Boston issued a report on TSA with a "Hold" rating due to "continuing weakness in IT spending" but noted that second quarter 2002 financial results were **one cent over Credit Suisse First Boston's estimates and "in line" with Company guidance**. The analyst report also noted TSA's "strong balance sheet."

107. The Company filed its Form 10-Q with the SEC on or about May 13, 2002, reiterating the financial results for the second quarter ("2Q02 10Q"). The 2Q02 10Q was signed by Fuxa and represented all necessary adjustments had been taken.

108. The statements referenced above in paragraphs 103 through 105 and 107 were each materially false and misleading when made because they failed to disclose or misrepresented the following adverse facts, among others: (i) Derkacht made materially false and misleading representations about TSA's strong operating cash flow and state of the Company's balance sheet, which were only achieved through repeated GAAP violations; (ii) defendant Hanson had no reasonable basis for his third quarter forecast, as the Company lacked sufficient internal controls to accurately forecast; (iii) the 2Q02 10Q did not reflect all necessary

adjustments in the financial statements; and (iv) the balance sheet and income statement were materially misstated in the 1Q02 10Q.

109. On July 30, 2002, the Company announced its financial results for the 2002 third quarter for the period ending June 30, 2002. The Company reported revenue of $65.0 million and pro forma net earnings of $1.3 million or $.12 per diluted share. Operating cash flow for the quarter was $10.5 million, the sixth consecutive quarter with strong operating cash flow, and the ending cash balance was $59.3 million.

110. With respect to the quarterly financial results, Derkacht commented:

> We had a good quarter in a clearly difficult market for information technology spending. Licensing activity with existing customers improved, as customers reconfirmed their commitment to our e-payment platforms, driven by continued increases in e-payment transaction volume. **Our operating margin has increased throughout this fiscal year**, and our cash balance is the highest it has been in over two years. We made good progress on a number of fronts. I am pleased with the overall progress we have made in the last several quarters.

(Emphasis added).

111. The Company filed a Form 10-Q with the SEC on or about August 14, 2002, which reiterated the financial results announced in its July 30th press release ("3Q02 10Q"). The 3Q02 10Q was signed by defendant Hanson and represented all necessary adjustments had been taken.

112. The statements referenced above in paragraphs 109 through 111 were each materially false and misleading when made because they failed to disclose or misrepresented the following adverse facts, among others: (i) Derkacht's representation about TSA's operating margin was false and misleading, as it was only achieved through improper accounting practices; (ii) TSA's balance sheet and income statement in the 3Q02 10Q were materially misstated at all

relevant times; and (iii) the 3Q02 10Q financial statements did not reflect all necessary adjustments.

The Truth Begins to Emerge

113. Arthur Andersen had been TSA's auditors for many years. In fact, Defendant Duman had previously been employed by Arthur Andersen. However, following the Enron debacle, coupled with subsequent disasters involving Waste Management, WorldCom and Adelphia, Arthur Andersen was effectively shut down by federal authorities for its role in these massive accounting scandals, and in late May 2002, TSA was forced to hire a new auditor, KPMG. Within just two and a half months, KPMG determined that a "reportable condition" existed at TSA with respect to its internal controls, and that a re-audit of prior periods was necessary, thus evidencing the very basic nature of the accounting improprieties engaged in by defendants.

114. On August 14, 2002, after the close of the market, TSA shocked investors when it revealed that TSA management was reviewing several transactions involving the Company's customers that occurred during fiscal 1999 and 2000, to determine whether they had been accounted for appropriately. TSA further announced that: (i) the Company would conduct a re-audit of the financial statements for fiscal years 1999, 2000 and 2001, years previously audited by Arthur Andersen, who was terminated by the Company on May 29, 2002; (ii) the re-audits would likely result in the restatement of the Company's financial statements; (iii) KPMG was not able to certify the accuracy of TSA's interim financial statement for the third quarter of 2002 pursuant to the newly enacted Sarbanes-Oxley Act of 2002; and (iv) Duman, the Company's Chairman of the Board of Directors, had resigned effective August 13, 2002.

115. In response to the news that TSA's previously reported financial results would likely be restated, TSA's shares plummeted almost 20%, falling $2.22 per share (from the prior day's closing price of $10.72 per share), to $8.50 per share on August 15, 2002.

116. According to subsequent reports in the news media, the restatement, in part, involved the improper recognition of revenue from Digital Courier Technologies, Inc. ("DCTI"). The transactions with DCTI primarily involved software license agreements, a distribution agreement and investment in the customer's common stock and warrants. The transactions that occurred in the second quarter of fiscal 1999 resulted in revenues of approximately $4,375,000 during that fiscal quarter. The transaction that occurred during the second quarter of fiscal 2000 resulted in revenues of approximately $4,250,000 during that fiscal quarter. The Company also made investments in the aggregate amount of $11,700,000 in the publicly traded common stock of the customer during fiscal 1999 and 2000.

117. As part of the equity infusion by TSA in 1999, TSA was entitled to designate a member of the DCTI Board of Directors. Defendant Duman was designated to serve on the DCTI Board and did so from January 2000 until he resigned from the DCTI Board in 2001. DCTI was an affiliate of TSA beginning in June of 1999. Therefore, all transactions between TSA and DCTI should have been scrutinized as such and disclosed in the financial statements as related party transactions in accordance with Regulation S-X and FAS 57 (which requires that the nature and amount of related party transactions be disclosed and that control relationships be disclosed as well).

118. On August 19, 2002, the Company announced the further bad news that it had received a letter from the NASDAQ Stock Market, informing the Company that it was in violation of NASDAQ Marketplace Rule 4310(c)(14), which requires the Company to obtain a

review of interim financial information from the Company's independent auditor. Upon discovering that the financial results for the three years were likely to be restated, the Company was unable to certify the accuracy of its third quarter financial statements.

119. On October 15, 2002, the Company announced that it had received provisional permission to continue trading on the NASDAQ market, subject to the Company providing NASDAQ with its completed June 30, 2002 interim financial information no later than November 29, 2002. The Company further advised that it would announce its fourth quarter and September 30, 2002 fiscal year results in conjunction with the announcement of the results of the re-audit, which the Company assured would be completed by the November 29, 2002 deadline.

120. On November 19, 2002, the Company announced that, during the review of the Company's financial statements, the Company identified certain accounting adjustments that would, in fact, result in the restatement of its financial statements for fiscal years 1999, 2000 and 2001, as well as the restatement of its previously issued quarterly results for 2000 through the third quarter of 2002 because TSA improperly recognized revenue in conjunction with its software licensing arrangements. As a result, previously reported software license revenues and net income would decrease substantially in fiscal 1999, 2000 and 2001. The Company indicated that the adjustments could be "material".

121. Further, the Company announced that as a result of these adjustments, it was not possible to complete the re-audit prior to the November 29, 2002 deadline set by NASDAQ. The Company requested an extension from NASDAQ until December 31, 2002 to complete the re-audit process.

122. Following TSA's November 19, 2002 announcement, the trading price of TSA's shares fell from a closing price on November 18, 2002 of $9.50 per share to a low of $6.50, closing on November 20th at $7.35.

123. According to a former TSA marketing representative, Derkacht refused to sign TSA's financial filings unless "certain" accounting treatments were changed, due to his possible personal exposure under the Sarbanes-Oxley Act.

THE RESTATEMENT

124. On or about January 13, 2003, TSA filed its Form 10-K for the fiscal year ended September 30, 2002 ("2002 10K") which set forth TSA's actual restated financial results, as set forth below in summary format:

As Originally Reported
(in thousands)

	1999	2000	2001
Total Revenues	$354,794	$303,565	$299,801
Total Expenses	$284,534	$301,823	$324,698
Operating Income	$70,260	$1,742	($24,897)
Total Other Income	$1,610	$1,851	($19,914)
Net Income (Loss)	$44,700	$2,111	($43,017)

As Restated
(in thousands)

	1999	2000	2001
Total Revenues	$279,579	$254,728	$295,596
Total Expenses	$289,883	$307,597	$351,745
Operating Income	($10,304)	($52,869)	($56,149)
Total Other Income	($1,537)	($5,399)	($20,993)
Net Income (Loss)	($11,978)	($50,059)	($80,063)

125. As reflected above, contrary to originally reported 1999 net income of $44.7 million, TSA actually suffered a loss of almost $12 million, a difference of approximately $56 million, or a 125% reduction in reported net income. Similarly, while TSA originally reported 2000 net income of $2.1 million, in fact, the Company suffered a huge loss of over $50 million. Likewise, TSA's reported loss for 2001 almost doubled, increasing from $43 million to more than $80 million. The differences between reported results and the restated results are staggering.

126. A large portion of TSA's restatement is attributable to improper revenue recognition. As set forth above, in 1999, TSA originally reported full year revenue of $354,794,000; actual restated revenues in 1999 were $279,579,000 or a reduction of more than $75.2 million. Similarly, TSA originally reported 2000 revenues of $303,565,000, when actual revenues were $254,728,000, or a reduction of more than $48.8 million. The difference between 2001 reported results and actual results was $4.2 million. Thus, collectively for 1999 through 2001, TSA overstated its revenues by a massive $128.2 million.

TSA's VIOLATIONS OF GAAP

127. TSA's announcement that it was restating its financial statements for fiscal years 1999, 2000 and 2001, as well as each quarter during fiscal 2000, 2001 and 2002 contains an admission that the financial statements originally issued, as described above, were false and that the overstatement of revenue and income and understatements of expenses were material. GAAP provides that financial statements should only be restated in limited circumstances; that is, when there is a change in reporting entity, there is a change in accounting principles used, or to correct a material error in previously issued financial statements. TSA's restatements were not due to a change in reporting entity or a change in accounting principles, but rather to correct accounting irregularities in previous financial statements. Therefore, the restatements are admissions by TSA that its previously issued financial results and its public statements regarding those statements were materially false.

Revenue Adjustments

128. In its 2002 10K, TSA provided certain explanations for the revenue restatement, admitting that of the four criteria set forth in SOP 97-2, which TSA repeatedly maintained it was in compliance with throughout the Class Period, defendants violated each of the four.

129. With respect to Delivery/Term Commencement, defendants reported:

> Delivery/Term Commencement. The Company has identified certain arrangements in which <u>delivery of the software</u> products and/or commencement of the license term <u>had not occurred prior to revenue being recognized</u>. The Company has restated its consolidated financial statements for these arrangements to recognize revenue upon delivery to the customer and commencement of the license term.

(Emphasis added).

Thus, according to the 2002 10K, TSA decreased revenues by $1,047,000 and $1,268,000 for 2000 and 2001, respectively, for this violation.

130. Defendants also failed to meet the "acceptance" provision of SOP 97-2 as follows:

> Customer Acceptance. Certain of the Company's software arrangements (primarily those in the Asia/Pacific region) include payment terms that are enforceable only upon the passage of time or customer acceptance. Historically, for most of the software license arrangements that contain customer acceptance provisions, the Company recognized software license fee revenue upon delivery of the software products, assuming that all other revenue recognition criteria had been met. The Company's consolidated financial statements have been restated to recognize revenues under software license arrangements in which acceptance did not ultimately occur, this restated treatment resulted in a reduction in previously recognized revenues.

Thus, according to the 2002 10K, TSA decreased revenues by $2,190,000 and $197,000 for 2000 and 2001, respectively, for this violation.

131. Defendants also acknowledged that TSA's prior representation of "fixed or determinable" fees had been misrepresented:

> Fixed or Determinable. In fiscal 1999, the Company adopted SOP 97-2, which requires that a software vendor's fee be fixed or determinable before it can recognize the license fee revenue upon shipment of the software. SOP 97-2 states that if payment of a significant portion of the software license fee is not due until after expiration of the license or more than twelve months after delivery, the license fee should be presumed not to be fixed or determinable. However, SOP 97-2 provides that the software vendor can overcome the presumption that the software license fees are not fixed or determinate if the vendor has a standard business practice of using long-term or installment contracts and has a history of successfully collecting the software license fees under the original payment terms of the software license arrangement without making concessions.

> Previously, the Company concluded that for certain BASE24 and ICE software arrangements where the customer is contractually committed to make license payments that extend beyond twelve months, the fixed or determinable presumption had been overcome and software license fee revenue should be recognized upon delivery of the software, assuming that all other revenue recognition criteria had been met. Software license fee revenues recognized under these arrangements were referred to in the Company's previous filings with the SEC as "Recognized-Up-Front" MLFs ("RUFs"). Software license fee revenues previously recognized as RUFs totaled approximately $21.3 million and $30.3 million for fiscal 2001 and 2000, respectively.
>
> Subsequently, it was determined that upon adoption of SOP 97-2, **the Company lacked a history of successfully collecting software license fees under the original terms of the software license arrangement without making concessions, which would have enabled it to recognize software license fee revenue upon delivery of the software products. In addition, certain contracts previously accounted for under the RUF policy contained cancellation clauses and MLFs that vary with customer usage (i.e., usage-based fees)**. Therefore, license fees for these arrangements were also not fixed and determinable at the outset of the arrangement. As a result, the Company's **consolidated financial statements have been restated to recognize revenues under software license arrangements with extended payment terms over the term of the underlying license arrangements, as payments become due and payable rather than up-front (or ratably for subscription arrangements)**.

(Emphasis added).

Thus, according to the 2002 10K, TSA decreased 2000 revenues by $16,937,000 and increased 2001 by $10,457,000 for this violation.

132. Finally, defendants also acknowledged that TSA's financial statements had previously recorded revenue when collectibility was in question:

> Collectibility. It has been determined that certain software license revenue was recognized **for which collection was not reasonably assured**. The Company's consolidated financial statements have

> been **restated to recognize revenue from these arrangements as cash was received**. For those software license arrangements in which collectibility was not probable at the onset of the arrangement and for which the Company received no cash or only a portion of the fees, this restated treatment resulted in an reduction of previously recognized revenues and bad debts expense.

(Emphasis added.)

Thus, according to the 2002 10K, TSA decreased 2000 and 2001 revenues by $6,767,000 and $1,417,000, respectively.

133. The above-noted revenue restatements stem from multiple violations of American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2 "Software Revenue Recognition." SOP 97-2 incorporates four basic revenue recognition principles that must be met to recognize revenue with software arrangements, including (a) persuasive evidence that an arrangement exists; (b) delivery has occurred; (c) the vendor's fee is fixed or determinable; (d) collectibility is probable.

134. Based upon the information disclosed in the 2002 10K, the Company **admits that it violated each of the four basic revenue recognition principles enumerated in SOP 97-2**:

(a) TSA recognized revenue prior to "commencement of the license term" in violation of the first revenue recognition principle of SOP 97-2, for if the license term has not yet commenced, the revenue has not yet been earned and there is no arrangement or enforceable contract at the time revenue was recorded. (SOP 97-2.15-17).

(b) TSA acknowledged that it recognized revenues prior to delivery, in violation of SOP 97-2.18-25. TSA originally recorded revenue upon delivery of the software in

certain software arrangements containing customer acceptance provisions, in which acceptance never occurred in violation of SOP 97-2.20.

(c) TSA improperly recognized revenue upon shipment in situations where the license fee was not fixed on determinable. That recognition violated GAAP because (i) the Company had no history of collecting its license fees without making concessions or (ii) certain contracts contained cancellation clauses and monthly licensing fees that varied with customer usage and, as such, were not fixed or determinable. (SOP 97-2.26-31).

(d) TSA recognized revenue from customers in which collectibility was not probable at the outset of the arrangement, instead of recognizing payments when received, in violation of SOP 97-2.26.

135. On software license arrangements that include both the licensing of software and providing of post-contract customer support ("PCS"), the separate components typically each have distinct stated terms. The software license, although generally ranging from 12 to 60 months, had some arrangements extending beyond 60 months. The PCS term, generally 12 to 24 months, in certain cases had terms as long as the software arrangements (i.e. up to 60 days). SOP 97-2 requires that if a software arrangement includes multiple elements (i.e., license and support), the fee should be allocated to the various elements based upon vendor-specific objective evidence ("VSOE"). VSOE of fair value is limited to: i) the price charged when the element is sold separately ii) for an element not sold separately, a price established by management having relevant authority. The fees from software arrangements with multiple elements must be allocated to the various elements based on VSOE of fair value, regardless of the separate prices for each element stated in the contract. If the seller is unable to establish adequate VSOE, all revenue from the arrangement must be deferred until the earlier of (a)

adequate VSOE is obtained for all elements of the arrangement or (b) all elements of the arrangement have been delivered. (SOP 97-2.09-.13). TSA violated these requirements as follows:

(a) TSA provided "bundled" software arrangements to include the right to PCS services in the future or unspecified upgrades/enhancements. According to TSA's restatement disclosure, the PCS terms were generally 12-24 months. TSA originally recorded all of the revenue associated with PCS at the inception of the arrangement without having adequate VSOE. SOP 97-2.58 states that if VSOE does not exist to allocate the fee to the separate element and the only undelivered element is PCS, the entire arrangement fee should be recognized ratably over (a) the contractual PCS period or (b) the period during which PCS is expected to be provided. (SOP 97-2.56-.59) **Thus, TSA should not have recognized all the revenue upfront, but rather, ratably over the 12-24 months they were obligated to provide PCS.**

(b) Similarly, for multiple element arrangements whereby TSA agreed to deliver only a portion of the software products to the customer initially and deliver additional specified software products in the future, TSA violated SOP 97-2.12 by recording at the inception of the arrangement license fee revenue relating to the delivered products as determined by stated contract values rather than fair value. The fees from these types of arrangements must be allocated to each element based on VSOE, regardless of stated values. Because TSA was unable to establish adequate VSOE of fair value for the undelivered elements (products in the future), TSA ultimately restated 2000 and 2001 revenues by $14,701,000 and $8,821,000, respectively, to defer revenue recognition for the entire arrangement for this violation.

136. Further, TSA entered into certain software arrangements whereby it agreed, in connection with multiple-element arrangements, to deliver software immediately and

deliver unspecified additional software products in the future. These types of arrangements are accounted for as subscriptions pursuant to SOP 97-2.48-49. The proper accounting treatment is to recognize the software revenue over the term of the arrangement beginning with the delivery of the initial product. **TSA violated subscription accounting by recording all of the revenue associated with the contract upon delivery of the first product despite having a future obligation to make deliveries.** According to the 2002 10K, TSA decreased 2000 and 2001 revenues by $1,047,000 and $1,268,000, respectively, for this violation alone.

137. In addition, TSA entered into certain software arrangements which require significant production, modification or customization. SOP 97-2 requires that these types of arrangements be accounted for in accordance with ARB 45, "Long-Term Construction-Type Contracts" issued by the AICPA Committee on Accounting Procedure in 1955 and the guidance in SOP 81-1, "Accounting for Performance of Construction-type and Certain Production-Type Contracts." TSA violated SOP 97-2 by (i) recognizing revenue up front upon delivery when it should have been recognized under the percentage-of-completion method and (ii) including in revenue amounts that were actually due under extended payment terms. SOP 97-2.74-.91, ARB 45, para. 4-8, SOP 31-1.01-.04. According to the 2002 10K, TSA decreased 2000 and 2001 revenues by $337,000 and $1,473,000, respectively, for this violation alone.

138. According to a former account manager at TSA, project managers at TSA would determine at which points a specified percentage of a project was completed. The project managers would advise TSA headquarters in Omaha when milestones were met for revenue recognition reasons. Thus, it is evident that defendants **knew** how GAAP was supposed to apply in percentage-of-completion contracts, but equally clear that defendants violated GAAP.

Operating Expense Adjustments

Goodwill and Software Impairment

139. TSA originally evaluated the goodwill of MDL for impairment by comparing the undiscounted estimated future cash flows to the carrying amount of the goodwill based on a 15-year life, and concluded that there was no impairment to goodwill as of the end of fiscal year 2001. Subsequently, TSA revised its goodwill impairment analysis to only "consider undiscounted cash flows during the estimated useful life of the asset" (i.e., the original useful life of 15 years was not realistic and was not based on an analysis based on reasonable and supportable assumptions). In connection with the MDL acquisition, TSA also ultimately wrote off the MDL software to impairment of long-lived assets. TSA, for both the goodwill and software adjustments, violated SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets And For Long-Lived Assets To Be Disposed Of." According to the 2002 10K, TSA recognized software impairment of $8,880,000 and goodwill impairment of $36,618,000 in 2001.

Capitalized Software Costs

140. TSA's wholly owned subsidiary, Regency Systems, Inc. ("Regency") previously capitalized costs associated with the internal development of an internet banking product. SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed," states in relevant part that capitalization of software costs must cease once the product is available for general release to customers. Regency, in violation of SFAS No. 86, para. 6, continued to capitalize costs once the internet banking software was made available for sale to customers. The effect of this improper accounting was to understate Regency's (and TSA's) liabilities and overstate Regency's (and TSA's) net income.

141. TSA also improperly capitalized software development costs associated with the IntraNet CO-ach software product. However, the IntraNet CO-ach was connected to a project pursuant to which TSA was recognizing revenue using the percentage of completion contract accounting method. Accordingly, such costs should have been charged to operations as revenue from the contract as recognized rather than being recorded as an asset on the balance sheet. SOP 81-1.69-.72 ARB 45 para. 4-8.

Restructuring Liabilities Adjustment

142. TSA embarked upon a restructuring in fiscal 2001. The issue of restructuring costs have recently been a hot topic with the SEC as part of the "big bath" practice in which companies clean up their balance sheets to improve their future earnings. For fiscal 2001, TSA improperly accrued restructuring costs of about $1,168,000 that did not meet the criteria in EITF 94-3, "Liability Recognition For Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)."

143. In order to accrue restructuring costs, management must approve and commit the company to either an exit or termination plan. EITF 94-3 establishes specific criteria to be met to qualify as an exit plan, as follows: (1) prior to the date of the financial statements, management approves and commits to the exit plan; (2) the exit plan specifically identifies all significant actions to be taken to complete the plan, which activities will not be continued, and the expected completion date; and (3) the plan is near enough to implementation that changes to the plan are unlikely. In fiscal 2001, TSA did not comply with the above discussed criteria and essentially wrote off operating expenses that should have been charged against earnings, thereby artificially inflating the Company's operating income.

144. Similarly, in accounting for employee termination costs, in fiscal 2001 TSA violated EITF 94-3, because it failed to meet the criteria for an exit plan in that it did not meet the notification requirements that must be made to employees whose benefit arrangements are scheduled to be terminated.

Accrued Liabilities Adjustments

145. According to the 2002 10K, TSA discovered accounting differences with respect to the recorded amount of accrued liabilities when compared to amounts actually paid. In other words, TSA apparently underestimated its actual liabilities and therefore overstated its net income.

Understatement of Goodwill

146. According to the 2002 10K, TSA materially misstated the purchase prices of certain acquisitions, SDM International, Inc. ("SDM") and MessagingDirect Ltd. ("MDL"). In the acquisitions, TSA issued shares of its Class A common stock, but used improper stock prices, which caused the goodwill TSA recorded to be understated, along with goodwill amortization expense for all periods prior to the adoption of SFAS No. 142 on October 1, 2001. ABP 16, para. 87, "Business Combinations" explains that an acquiring corporation should allocate the cost of an acquired company to the assets acquired and liabilities assumed based on the fair market values of the assets and liabilities acquired. APB 16 and EITF 95-19 state that the market price of securities for a reasonable period of time before and after the two companies have reached agreement on the purchase price and the proposed transaction is announced (a few days before and after). In the SDM acquisition, TSA used its stock price on the third day subsequent to the announcement of the acquisition. For the MDL acquisition, TSA used an average of its stock price one day prior to and four days after the announcement of the transaction. In the

restatement, TSA properly used the average of the stock price two days prior to and two days after the announcements of the transactions, resulting in an understatement of goodwill. As a result, the Company's amortization expense was artificially low and its net income artificially high. Failure to follow this basic accounting principle is indicative of the Company's reckless and intentional disregard for GAAP.

TSA's Lack of Internal Controls

147. In its 2002 Form 10-K, TSA disclosed that management and KPMG, TSA's new auditors, advised TSA's audit committee that during the course of KPMG's audit, they noted several deficiencies in internal controls; including controls over revenue recognition procedures, controls over policies and procedures for significant transactions and the lack of timely reconciliation of general ledger accounts. These internal control deficiencies constituted reportable conditions and, collectively, a material weakness. A reportable condition is defined in Statement Auditing Standards No. 60 entitled, "*Communication of Internal Control Related Matters Noted in an Audit*" as "... significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements ...." Deficiencies in internal controls generally do not occur all at once but occur slowly over a long period of time. Thus, the above internal deficiencies very likely existed throughout the entire Class Period as evidenced by the fact that TSA restated its financial statements going back to 1999.

The DCTI "Exchanges"

148. In Note 19 to the 2002 consolidated financial statements, contained in the 2002 10-K, TSA disclosed for the first time a series of related party transactions with DCTI.

TSA had previously disclosed the fact that it had made equity investments in DCTI in the 1999 Form 10-K, but did not disclose a series of transactions recognized as revenue by TSA immediately preceding and following the equity infusion by TSA into DCTI. In 2000, the companies executed or extended software license and distribution agreements that resulted in **each of the companies improperly recognizing revenues**. Specifically, a March 31, 2000 agreement between TSA and DCTI provided that DCTI would pay TSA $5 million in software license fees for the agreement in June and September 2000. An April 14, 2000 agreement between TSA and DCTI provided that TSA would guarantee DCTI $6 million of royalties to be paid in five annual installments. Pursuant to the restatement, the accounting for these two agreements was restated to account for these transactions as non-monetary exchanges, with no revenues recognized for what was essentially a swap transaction that involved two related entities transferring cash back and forth between themselves in order to create the impression of generating revenues.

SCIENTER ALLEGATIONS

149. The facts alleged herein compel a strong inference that the Individual Defendants made material false and misleading statements to the investing public with scienter in that the Individual Defendants knowingly or recklessly issued or disseminated public statements in the name of the Company that were materially false and misleading; knew or recklessly disregarded that such statements would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements as primary violators of the federal securities laws. The Individual Defendants knowingly or recklessly caused TSA to engage in irregular accounting practices, which, in turn, caused TSA to report artificially inflated financial results.

150. The ongoing fraudulent scheme described herein, which culminated in a massive restatement, could not have been perpetrated over a four-year period of time, involving as it did the improper application of at least 12 basic, generally accepted accounting principles, without the knowledge and complicity of the Individual Defendants.

151. Moreover, there is substantial specific evidence of Defendants' scienter. First, during the Class Period, TSA was engaged in an aggressive acquisition strategy which contemplated the use of TSA's stock as currency. Thus maintaining or inflating the price of TSA stock, which was dependent in large part on sales closed and reported financial results, was crucial in this acquisition campaign. Companies acquired by TSA for stock during the Class Period include:

(i) In March, 1999, TSA purchased 72% of InSessions, Inc. stock for 666,000 shares of TSA Class A common stock (TSA stock trading at about $38 per share);

(ii) In July, 1999, TSA acquired SDM International, Inc. for 475,000 TSA Class A common stock (TSA stock trading at approximately $31 per share);

(iii) In May, 2000, TSA acquired Workpoint Systems, Inc. for 164,680 TSA Class A common stock (TSA stock trading at approximately $13 per share);

(iv) In June, 2000, TSA acquired Hospital Health Plan Corp. of Minneapolis ("HHPC") (TSA stock was trading at approximately $17 per share);

(v) In October, 2000, TSA acquired MessagingDirect, Ltd. for 3,357,351 shares of TSA Class A common stock for $49.5 million (TSA stock trading at approximately $15 per share).

Thus, it was critical for defendants to maintain the illusion of growth, in order to bolster or maintain TSA's stock price so that it could be used as currency to fund the acquisition growth.

152. Additionally, throughout the Class Period, TSA maintained a line of credit with various banking institutions which required TSA to meet certain criteria, including maintaining set levels for receivables. The current line is secured by certain receivables and requires the Company to maintain a net worth of $145 million and a minimum working capital of $67 million. Initially, in the fiscal year ended September 30, 1998, the Company had a $10 million revolving line of credit, scheduled to expire in June 1999, pursuant to which it had no borrowings. By the fiscal year ended September 30, 2000, TSA had a $25 million line of credit with outstanding borrowings of $18 million. Subsequent to September 30, 2000, TSA increased its borrowing availability to $35 million, but by the filing of the 1Q01 10Q, TSA reported a $30 million line of credit with outstanding borrowings of $29 million. On June 28, 2001, TSA entered into a credit line with U.S. Bank National Association in the amount of $25 million, on which there were outstanding borrowings of $21.2 million. Subsequently, by amendment dated June 27, 2002, the bank reduced TSA's line of credit from $25 million to $15 million. Thus, while the credit line became increasingly important to TSA, the Company struggled to meet its banker's minimum requirements. As a result of the restatement, TSA's accrued receivables for 2001 fell from $50,932,000 to $23,414,000 and TSA was no longer in compliance with the terms of the credit line.

153. The compensation of TSA management during the Class Period relied upon a structure which included an incentive compensation plan established at the beginning of each fiscal year, according to the Schedules 14A filed. The Individual Defendants' bonus compensation was directly related to TSA's profit attainment, ending backlog, cash flow and/or the financial performance of an executive's division. In the 1999 fiscal year, when TSA originally reported more than $44 million net income, bonus incentives for each executive officer exceeded target levels allowing for maximum bonus payments. In reality, as set forth in its restatement, key target levels could not have been reached as TSA did not have any earnings in 1999. Rather, it had an almost $12 million net loss.

154. The nature of the GAAP violations, the wide variety of the GAAP violations, the huge size of the GAAP violations, and the length of time during which those GAAP violations were in place, all strongly suggest intentional behavior on the part of defendants. Moreover, KPMG almost immediately discovered many of TSA's questionable transactions, which led to the re-audit, and, ultimately, the restatement.

155. The SEC has also commenced an informal investigation into TSA as a result of the restatement.

156. In addition to his lucrative salary and bonus provisions, provisions which were dependent on Company performance, Fisher gained substantial benefits from serving at the Company. He negotiated a $3 million loan where $1.5 million (plus interest) would be forgiven if TSA stock met certain target levels. In addition, he personally benefited from achieving certain targets by getting the TSA Board to agree to lease two planes from KKS Management – where he and his brother-in-law were the principals – at a cost of more than $476,944 in 1999

alone. Thus, Fisher had a huge personal incentive to portray TSA's financial results in very aggressive terms.

157. Defendant Russell also sold TSA Class A common stock during the Class Period, gaining over $7 million in proceeds. The amount of Russell's sales and the timing were unusual and suspicious.

158. Moreover, TSA was under pressure to satisfy Wall Street's expectations as to its quarterly and annual earnings. Several former employees indicated the Company was continually rushing to close sales at the end of each quarter; additionally, one former employee said that blank tapes were sent out for revenue recognition purposes at the end of a quarter.

NO STATUTORY SAFE HARBOR

159. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the false statements pleaded in this Complaint because none of the statements pleaded herein are "forward-looking" statements nor were they identified as "forward-looking statements" when made. Nor did meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in any purportedly forward looking statements. In the alternative, to the extent that the statutory safe harbor does apply to any statements pleaded herein which are deemed to be forward-looking, Defendants are liable for those false forward-looking statements because at the time each of those statements was made the speaker actually knew those forward-looking statements were false and/or the statement was authorized and/or approved by an executive officer of TSA who actually knew that the statements were false when made.

COUNT I

(VIOLATION OF SECTION 10(b) OF THE EXCHANGE ACT AND RULE 10b-5 BROUGHT AGAINST ALL DEFENDANTS)

160. Lead Plaintiff repeats and reiterates each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

161. During the Class Period, defendants directly engaged in a common plan, scheme, and unlawful course of conduct, pursuant to which they knowingly or recklessly engaged in acts, transactions, practices, and courses of business which operated as a fraud and deceit upon Lead Plaintiff and the other members of the Class, and made various deceptive and untrue statements of material facts and omitted to state material facts in order to make the statements made, in light of the circumstances under which they were made, not misleading to Lead Plaintiff and the other members of the Class. The purpose and effect of the scheme, plan, and unlawful course of conduct was, among other things, to deceive the investing public, including Lead Plaintiff and the other members of the Class, and to induce Lead Plaintiff and the other members of the Class to purchase TSA common stock during the Class Period at artificially inflated prices.

162. During the Class Period, defendants, pursuant to said scheme, plan, and unlawful course of conduct, knowingly and/or recklessly issued, caused to be issued, participated in the issuance of, the preparation and/or issuance of deceptive and materially false and misleading statements to the investing public as particularized above.

163. As a result of defendants' dissemination of and/or failure to correct the false and misleading statements set forth above, the market price of TSA common stock was artificially inflated during the Class Period. Unaware of the false and misleading nature of the statements described above and the deceptive and manipulative devices and contrivances

employed by defendants, Lead Plaintiff and the other members of the Class relied, to their detriment, on the integrity of the market price of the stock in purchasing TSA common stock. Had Lead Plaintiff and the other members of the Class known the truth, they would not have purchased TSA shares or would not have purchased them at the inflated prices that they did.

164. Lead Plaintiff and the other members of the Class have suffered damages as a result of the wrongs herein alleged in an amount to be proved at trial.

165. By reason of the foregoing, defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and are liable to Lead Plaintiff and the other members of the Class for damages which they suffered in connection with their purchases of TSA stock during the Class Period.

COUNT II

(VIOLATION OF SECTION 20(a) OF THE EXCHANGE ACT BROUGHT AGAINST THE INDIVIDUAL DEFENDANTS)

166. Lead Plaintiff repeats and reiterates each and every allegation contained in each of the foregoing paragraphs as if set forth fully herein.

167. The Individual Defendants acted as controlling persons of the Company within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and active participation in and/or awareness of the Company’s day-to-day operations, and/or intimate knowledge of the Company’s expansion plans and implementation thereof, each Individual Defendant had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements that Lead Plaintiff alleges are false and misleading. The Individual Defendants were provided with, or had unlimited access to copies of the Company’s

reports, press releases, public filings and other statements alleged herein to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

168. In particular, the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

169. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of the wrongful conduct, Lead Plaintiff and the other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

WHEREFORE, Lead Plaintiff, on its behalf and on behalf of the Class, prays for judgment as follows:

A. Declaring this action to be a proper class action and certifying Lead Plaintiff as class representative pursuant to Rule 23 of the Federal Rules of Civil Procedure;

B. Awarding monetary damages against all of the Defendants, jointly and severally, in favor of Lead Plaintiff and the other members of the Class for all losses and damages suffered as a result of the wrongdoings alleged herein, including punitive damages where appropriate, together with interest thereon;

C. Awarding Lead Plaintiff the fees and expenses incurred in this action, including the reasonable allowance of fees for Plaintiffs' attorneys and experts;

D. Granting Lead Plaintiff and the other members of the Class such other and further relief as the Court may deem just and proper.

JURY DEMAND

Lead Plaintiff hereby demands a trial by jury in Omaha, Nebraska.

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CERTIFICATE OF SERVICE

I hereby certify that on June 30, 2003, I caused true and correct copies of the foregoing First Amended Consolidated Class Action Complaint For Violation of the Federal Securities Law to be filed electronically via the CM/ECF system, which will send notification of such filing to following:

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I further certify that I have mailed this document by first class mail to the following non CM/ECF participants:

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