US DATAWORKS INC

FORM 10QSB
(Quarterly Report of Financial Condition)

Filed 2/14/2007 For Period Ending 12/31/2006

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Industry	Software & Programming
Sector	Technology
Fiscal Year	03/31

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

FORM 10-QSB

(Mark One)

☑ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2006

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period to

Commission file number: 001-15835

US Dataworks, Inc.

(Exact name of small business issuer as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	**84-1290152** (I.R.S. employer identification number)
5301 Hollister Road, Suite 250 **Houston, Texas** (Address of principal executive offices)	**77040** (Zip Code)

Issuer's telephone number: (713) 934-3855

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☑ NO ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☑

Number of shares of Common Stock outstanding as of February 7, 2007: 37,241,806

Transitional Small Business Disclosure Format (Check one): YES ☐ NO ☑

US DATAWORKS, INC.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

US DATAWORKS, INC.

BALANCE SHEET

December 31, 2006
(Unaudited)

ASSETS	
Current assets:	
Cash and cash equivalents	$ 82,507
Accounts receivable, net of allowance for doubtful accounts of $0	2,591,521
Prepaid expenses and other current assets	167,455
Total current assets	2,841,483
Property and equipment, net	519,351
Goodwill, net	14,133,629
Other assets	30,334
Total assets	$17,524,797

The accompanying notes are an integral part of these financial statements.

US DATAWORKS, INC.

BALANCE SHEET

December 31, 2006

(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Current portion of convertible promissory notes, net of unamortized discount of $92,115	$ 420,618
Note payable – related party	539,000
Deferred revenue — current	771,523
Accounts payable	803,117
Accrued expenses	180,125
Interest payable	7,530
Interest payable – related party	1,708
Derivative — Compounded embedded within note	39,034
Derivative – warrants	70,826
Total current liabilities	2,833,481
Total liabilities	2,833,481
Commitments and Contingencies	
Stockholders' Equity:	
Convertible Series B preferred stock, $0.0001 par value 700,000 shares authorized, 109,933 shares issued and outstanding $3.75 liquidation preference, dividends of $241,842 in arrears	55
Common stock, $0.0001 par value 90,000,000 shares authorized and 37,139,303 shares issued and outstanding	3,714
Common Stock Subscription	(1,500,000)
Additional paid-in capital	65,295,838
Accumulated deficit	(49,108,291)
Total shareholders' equity	14,691,316
Total liabilities and stockholders' equity	$ 17,524,797

The accompanying notes are an integral part of these financial statements.

US DATAWORKS, INC.
STATEMENTS OF OPERATIONS

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2006	As Restated 2005	2006	As Restated 2005
REVENUES				
Software licensing revenues	$ 94,175	$ 89,109	$ 609,158	$ 1,840,029
Software transactional revenues	532,868	236,848	1,138,588	649,452
Software maintenance revenues	109,128	104,477	315,677	331,369
Professional service revenues	983,716	656,119	2,693,226	2,078,335
Total revenues	1,719,887	1,086,553	4,756,649	4,899,185
COST OF SALES	540,127	321,100	1,559,854	1,103,956
Gross profit	1,179,760	765,453	3,196,795	3,795,229
OPERATING EXPENSES				
General and administrative	1,364,879	1,261,557	4,896,677	4,167,079
Depreciation and amortization	37,605	91,163	105,246	269,645
Total operating expense	1,402,484	1,352,720	5,001,923	4,436,724
LOSS FROM OPERATIONS	(222,724)	(587,267)	(1,805,128)	(641,495)
OTHER INCOME (EXPENSE)				
Financing costs	—	(160,000)	—	(160,000)
Interest expense	(49,641)	(96,512)	(220,418)	(241,163)
Loss on extinguishment of debt	—	—	—	(206,000)
Interest expense – related party	(10,938)	—	(10,938)	—
Gain/Loss on derivatives	(37,889)	34,633	(193,960)	453,729
Contingent liabilities loss	—	—	222,600	—
Other income	—	8,249	10,491	24,467
Total other income (expense)	(98,468)	(213,630)	(192,225)	(128,967)
LOSS BEFORE PROVISION FOR INCOME TAXES	(321,192)	(800,897)	(1,997,353)	(770,462)
PROVISION FOR INCOME TAXES	—	—	—	—
NET LOSS	$ (321,192)	$ (800,897)	$ (1,997,353)	$ (770,462)
NET LOSS ATTRIBUTABLE TO COMMON STOCK	$ (321,192)	$ (800,897)	$ (1,997,353)	$ (770,462)
Basic and diluted loss per share	$ (0.01)	$ (0.03)	$ (0.07)	$ (0.03)
Basic and diluted weighted-average shares outstanding	31,003,828	30,037,020	30,612,526	29,684,597

The accompanying notes are an integral part of these financial statements.

US DATAWORKS, INC.

STATEMENTS OF CASH FLOW

For the Nine Months Ended December 31,

(Unaudited)

	2006	As Restated 2005
Cash flows from operating activities:-		
Net (loss)/income from operations	$(1,997,953)	$ (770,461)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property and equipment	105,247	269,645
Amortization of note discount on convertible promissory note	176,058	180,221
Amortization of deferred compensation expense	—	(9,302)
Loss on extinguishment of debt	—	206,000
Gain on disposition of automobile	(3,394)	—
Stock based compensation	517,639	—
Gain / (Loss) on derivatives	193,960	(453,729)
Issuance of warrants for services	—	26,456
Issuance of options to third party for services	—	27,423
Issuance of warrants to lender in exchange for waiver in excess of cash received	—	160,000
Loss on disposition of fixed assets	—	2,650
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,099,833)	180,306
Costs and estimated earnings in excess of billings on uncompleted contracts	238,000	(937,323)
Prepaid expenses and other current assets	(941)	(125,594)
Other assets	12,890	569
Deferred revenue	554,769	(185,773)
Accounts payable	571,705	(96,996)
Accrued expenses	(282,413)	(64,585)
Interest payable	(32,434)	(19,206)
Net cash used in operating activities	(1,046,700)	(1,609,699)
Cash flows from investing activities:		
Purchase of property and equipment	(157,098)	(114,817)
Proceeds from sales of fixed assets	8,000	2,682
Net cash used in investing activities	(149,098)	(112,135)

The accompanying notes are an integral part of these financial statements.

US DATAWORKS, INC.

STATEMENTS OF CASH FLOW

For the Nine Months Ended December 31,

(Unaudited)

	2006	As Restated 2005
Cash flows from financing activities:		
Proceeds from related party note payable	500,000	—
Proceeds from convertible promissory note	—	700,000
Repayment of convertible promissory note	(512,133)	—
Proceeds from stock sale	—	600,000
Stock issuance costs	—	(14,550)
Proceeds from issuance of warrants to lender in exchange for waiver	—	25,000
Net cash (used in) /provided by financing activities	(12,133)	1,310,450
Net decrease in cash and cash equivalents	(1,207,931)	(411,384)
Cash and cash equivalents, beginning of period	1,290,438	1,525,386
Cash and cash equivalents, end of period	$ 82,507	$1,114,002
Supplemental disclosures of cash flow information Interest paid	$ 87,733	$ 76,820

The accompanying notes are an integral part of these financial statements.

US DATAWORKS, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

1. Organization and Business

General

US Dataworks, Inc. (the "Company"), a Nevada corporation, develops, markets, and supports payment processing software for the financial services industry. Its customer base includes many of the largest financial institutions as well as credit card companies, government institutions, and high-volume merchants in the United States. The Company was formerly known as Sonicport, Inc.

2. Summary of Significant Accounting Policies

INTERIM FINANCIAL STATEMENTS

The unaudited condensed financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. The financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly present such information. All such adjustments are of a normal recurring nature. Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), have been condensed or omitted pursuant to such rules and regulations.

These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's 2006 Annual Report. The results of operations for interim periods are not necessarily indicative of the results for any subsequent quarter or the entire year ending March 31, 2007.

Revenue Recognition

The Company recognizes revenues in accordance with the provisions of the American Institute of Certified Public Accountants' Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"). The Company licenses its software products under nonexclusive, nontransferable license agreements. These arrangements do not require significant production, modification, or customization. Therefore, revenue is recognized when such a license agreement has been signed, delivery of the software product has occurred, the related fee is fixed or determinable, and collectibility is probable.

In certain instances, the Company licenses its software on a transactional fee basis in lieu of an up-front licensing fee. In these arrangements, the customer is charged a fee based upon the number of items processed by the software and the Company recognizes revenue as these transactions occur. The transaction fee also includes the provision of standard maintenance and support services as well as product upgrades should such upgrades become available.

If professional services were provided in conjunction with the installation of the software licensed, revenue is recognized when these services have been provided.

For license agreements that include a separately identifiable fee for contracted maintenance services, such maintenance revenues are recognized on a straight-line basis over the life of the maintenance agreement noted in the agreement, but following any installation period of the software.

Goodwill

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 “Goodwill and Other Intangible Assets” (“SFAS No. 142”), which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS No. 142, all goodwill amortization ceased effective January 1, 2002.

The goodwill recorded on the Company’s books is from the acquisition of US Dataworks, Inc. in fiscal year 2001 which remains the Company’s single reporting unit. SFAS No. 142 requires goodwill for each reporting unit of an entity to be tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value is determined using a combination of the discounted cash flow, market multiple and market capitalization valuation approaches. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and estimates of market multiples for each reportable unit. On an ongoing basis, absent any impairment indicators, the Company performs impairment tests annually during the fourth quarter.

SFAS No. 142 requires goodwill to be tested annually and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of the reportable unit below its carrying amount. The Company did not have an impairment of goodwill to record for the years ended March 31, 2006 or March 31, 2005. In addition, during the quarters ended December 31, 2006 and 2005, the company noted no events or circumstances that would indicate the need to evaluate the impairment of its goodwill.

Convertible Debt Financing – Derivative Liabilities

The Company reviews the terms of convertible debt and equity instruments issued to determine whether there are embedded derivative instruments, including embedded conversion options that are required to be bifurcated and accounted for separately as a derivative financial instrument. In circumstances where the convertible instrument contains more than one embedded derivative instrument, including the conversion option, that is required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument. Also, in connection with the sale of convertible debt and equity instruments, the Company may issue freestanding options or warrants that may, depending on their terms, be accounted for as derivative instrument liabilities, rather than as equity.

In accordance with Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities”, as amended (“SFAS 133”), the convertible debt holder’s conversion right provision, interest rate adjustment provision, liquidated damages clause, cash premium option, and the redemption option (collectively, the debt features) contained in the terms governing the convertible notes are not clearly and closely related to the characteristics of the notes. Accordingly, the features qualify as embedded derivative instruments at issuance and, because they do not qualify for any scope exception within SFAS 133, they are required by SFAS 133 to be accounted for separately from the debt instrument and recorded as derivative instrument liabilities

Stock Options

Effective April 1, 2006, the Company adopted the Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (“SFAS 123R”), which require the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options, based on estimated fair values. The Company adopted SFAS 123R using the modified prospective transition method, which requires the application of the accounting standard as of April 1, 2006, the first day of the Company’s fiscal year 2007. The Company’s Financial Statements as of and for the three months ended December 31, 2006 reflect the impact of SFAS 123R. In accordance with the modified prospective transition method, the Company’s Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R. Stock-based compensation expense recognized under SFAS 123R for the three months and nine months ended December 31, 2006 was $127,067 and $517,639 respectively, which consists of stock-based compensation expense related to employee and director stock options and restricted stock issuances.

SFAS 123R requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the company's Statement of Operations. Prior to the adoption of SFAS 123R, the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, ("SFAS 123"). Under the intrinsic value method, no stock-based compensation expense had been recognized in the Company's Statement of Operations prior to January 1, 2006 because the exercise price of the Company's stock options granted to employees and directors was equal to or greater than the fair market value of the underlying stock at the date of grant. The Company's pro forma information for the three and nine month periods ended December 31, 2006 is as follows:

	For the Three Months Ending Ending Dec 31, 2005 As Restated	**For the Nine Months Dec 31, 2005 As Restated**
Net loss as reported	$(800,897)	$(770,462)
Stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	$(116,567)	$(229,024)
Net income (loss); pro forma	$(917,464)	$(999,486)
Basic and diluted earnings (loss) per share, as reported	$ (0.03)	$ (0.03)
Basic and diluted earnings (loss) per share, pro forma	$ (0.03)	$ (0.03)

The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for the three and nine months ended December 31, 2005: dividend yields of 0%; expected volatility of 89%; risk-free interest rates of 4.34% and 4.07% respectively; and expected lives of 3 years. For the three and nine months ended December 31, 2005 there were -0- and 1,161,900 respectively of options granted.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Compensation expense recognized for all employee stock options awards granted is recognized over their respective vesting periods unless the vesting period is graded. As stock-based compensation expense recognized in the Statement of Operations for the three and nine months ended December 31, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures.

Upon adoption of SFAS 123R the Company continued to use the Black-Scholes option valuation model, which requires management to make certain assumptions for estimating the fair value of employee stock options granted at the date of the grant. In determining the compensation cost of the options granted during the three and nine months ended December 31 2006, as specified by SFAS 123R, the fair value of each option grant has been estimated on the date of grant using the Black-Scholes pricing model and the weighted average assumptions used in these calculations are summarized as follows:

	For the Three Months Ending December 31, 2006	For the Nine Months Ending December 31, 2006
Risk-free Interest Rate	4.69%	4.89%
Expected Life of Options Granted	3 years	3 years
Expected Volatility	71%	82%
Expected Dividend Yield	0	0
Expected forfeiture Rate	30%	30%

As of December 31, 2006, there was approximately $332,267 of total unrecognized compensation cost related to nonvested share-based compensation arrangements, which is expected to be recognized over a period of 3 years .

Earnings (Loss) per Share

The Company calculates loss per share in accordance with SFAS No. 128, "Earnings per Share". Basic loss per share is computed by dividing the net loss by the weighted-average number of common shares outstanding. For periods in which there was a loss attributable to common stock outstanding, (i) convertible securities, (ii) warrants and (iii) stock options to purchase shares of the Company's common stock were excluded from the calculations of diluted loss per share, as inclusion of these securities would have reduced the net loss per share.

The following potential common stock equivalents have been excluded from the computation of diluted net loss per share for the periods presented because the effect would have been anti-dilutive (options and warrants typically convert on a one-for-one basis, see conversion details of the preferred stock stated below for the common stock shares issuable upon conversion):

	For the Nine Months Ended December 31,	
	2006	2005
Options outstanding under the Company's stock option plans	6,460,349	3,730,183
Options granted outside the Company's stock option plans	1,160,000	1,160,000
Warrants issued in conjunction with private placements	19,738,683	6,247,859
Warrants issued as a financing cost for notes payable and convertible notes payable	1,783,650	2,122,283
Warrants issued for services rendered and litigation settlement	200,769	360,769
Warrants issued as part of the US Dataworks, Inc. acquisition	—	67,200
Convertible Series B preferred stock (a)	109,933	109,933

(a) The Series B preferred stock is convertible into shares of common stock at a conversion price of $3.75 per share.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk

The Company sells its products throughout the United States and extends credit to its customers. It also performs ongoing credit evaluations of such customers. The Company does not obtain collateral to secure its accounts receivable. The Company evaluates its accounts receivable on a regular basis for collectibility and provides for an allowance for potential credit losses as deemed necessary.

Four of the Company's customers accounted for 20%, 17%, 17% and 12%, respectively, of the Company's net revenues for the three months ended December 31, 2006. Three customers accounted for 29%, 19% and 12%, respectively, of net revenues for the nine months ended December 31, 2006. Three customers accounted for 43%, 25% and 12% of net revenues for the three months ended December 31, 2005. Two customers accounted for 51% and 20%, respectively, of net revenues for the nine months ended December 31, 2005.

At December 31, 2006, amounts due from significant customers accounted for 67% of accounts receivable.

3. Restatement of Quarterly Information

The Company concluded that it was necessary to restate its financial results for the interim period ended September 30, 2005, to reflect additional non-operating gains and losses related to certain features included is the Company's debt that require derivative treatment.

The Company had previously classified the value of its conversion features and warrants to purchase common stock as debt discounts. After further review, the Company has determined that these instruments should have been recorded as derivative liabilities and therefore, the fair value of each instrument must be recorded as a derivative liability on the Company's balance sheet. Changes in the fair values of these instruments will result in adjustments to the amount of the recorded derivative liabilities and the corresponding gain or loss will be recorded in the Company's statement of operations. At the date of the conversion of each respective instrument or portion thereof (or exercise of the options or warrants or portion thereof, as the case may be), the corresponding derivative liability will be reclassified as equity.

STATEMENTS OF OPERATIONS

For Quarter ending December 31, 2005

	As Previously Reported	Adjustments	As Restated
Revenue	$ 1,086,553	$ —	$ 1,086,553
Loss from operations	(587,267)	—	(587,267)
Other income (expense):			
Financing costs	(268,846)	108,846	(160,000)
Interest expense	(27,605)	(68,907)	(96,512)
Loss on extinguishment of debt	—	—	—
Gain/Loss on derivatives	—	34,633	34,633
Other income (expense)	8,249	—	8,249
Net income / loss	$ (875,469)	$ 74,572	$ (800,897)
Net income / loss per common share; basic and undiluted	$ (0.03)	$ —	$ (0.03)

BALANCE SHEET

	As Previously Reported	Adjustments	As Restated
Total Assets	$17,625,603	$ —	$17,625,603
Total liabilities	1,676,090	302,266	1,978,356
Stockholders Equity	$15,949,514	$(302,266)	$15,647,247

4. Property and Equipment

Property and equipment as of December 31, 2006 consisted of the following:

Furniture and fixtures	$ 77,559
Office and telephone equipment	92,795
Computer equipment	693,552
Computer software	1,271,098
Leasehold improvements	62,997
	2,198,001
Less accumulated depreciation and amortization	(1,678,650)
Total	$ 519,351

Depreciation and amortization expense for the three and nine months ended December 31, 2006 and 2005 was $37,605, $105,246, $91,163 and $269,645, respectively.

5. Notes Payable – Related Parties

On September 26, 2006, the Company entered into a note payable with its Chief Executive Officer for $500,000. The note bears an 8.75% per annum interest rate, is unsecured and is due September 25, 2007. As of December 31, 2006 the outstanding balance on the note payable is $500,000.

6. Convertible Promissory Notes

Convertible promissory notes at December 31, 2006 consisted of the following:

Convertible promissory note, interest at 10% per annum, unsecured, $256,066 due September 15, 2007	$ 256,066
Convertible promissory note issued June 16, 2005 with $70,000 Original Issue Discount, due in 15 equal monthly installments beginning April 15, 2006, net of unamortized discount of $92,115	164,552
	420,618
Less current portion	(420,618)
Long-term portion	$ —

Convertible promissory note with interest at 10% per annum

This note is an amendment and restatement of a note in the same principal amount originally dated September 15, 2004. The original note was issued effective September 15, 2004 in connection with the November 2004 settlement of a lawsuit brought by an investor in December 2003. The amended note is convertible at any time, at the holder's election, into shares of the Company's common stock at a per share conversion price of $1.10, subject to standard antidilution provisions.

The amended note is effective September 15, 2005 and extended the principal payment of $256,067 originally due September 15, 2005 for one year. The final principal payment of $256,066 is due on September 15, 2007. In consideration of this amendment, the Company issued the holder a common stock purchase warrant to purchase up to 650,000 shares of the Company's common stock at an exercise price of $0.59 per share. The warrant will expire on September 15, 2008.

The changes to this debt caused the accounting treatment to be an extinguishment of the old debt and issuance of new debt instead of being treated as modification of debt. Therefore, the excess of the fair value of the note and warrants over the carrying amount of the debt is $206,000 and has been recorded as a loss on extinguishment for the year ended March 31, 2006.

In connection with the November 2004 settlement, the Company also issued a warrant to purchase 160,000 shares of the Company's common stock at a purchase price of $0.75 per share, which warrant will expire on November 10, 2006.

Using the Black-Scholes pricing model the Company has determined the value of the warrants issued in connection with the settlement to be $126,000. This amount, together with the value of the convertible promissory note, the value of the plaintiff's legal expense reimbursement and the Company's legal costs incurred in connection with the settlement totaled $924,200 and has been recorded as Investor litigation settlement expense for the year ended March 31, 2005.

Convertible promissory note issued June 16, 2005 with $70,000 Original Issue Discount

On June 16, 2005, the Company entered into a Securities Purchase Agreement with an institutional investor (the "Debenture Agreement") for the sale of a convertible debenture with a principal amount of $770,000 and an original issue discount of $70,000 for gross proceeds of $700,000. The debenture is convertible at anytime at the discretion of the holder at a price per share of $0.572 into 1,346,154 shares of the Company's common stock. The convertible debenture is to be repaid in 15 monthly installments of $51,333.33 beginning April 15, 2006. The Company may also elect, upon proper notice, to pay any monthly installment in shares of the Company's common stock based on a conversion price equal to the lesser of (i) the then applicable conversion price, or (ii) 90% of the volume weighted average price of the Company's common stock for the 10 trading days immediately preceding the payment; provided, that, such conversion price must be at least equal to the conversion floor of $0.23, or such monthly installment must be paid in cash. This convertible debenture was amended on March 9, 2006, pursuant to which the Company must, within 25 calendar days prior to each monthly payment, deliver 89,744 shares of its common stock to the holders, which represents the monthly installment amount divided by the then conversion price with the first monthly payment becoming due on April 17, 2006. In connection with the Debenture Agreement, the Company issued two groups of warrants, Short Term Warrants and Long Term Warrants to the institutional investor. The Short Term Warrants allow the institutional investor to purchase an aggregate of 407,926 shares of the Company's common stock with an exercise price of $0.572 per share exercisable for a period of 180 days at any time after the later of (i) the effective date of the registration statement (as described below) or (ii) December 16, 2005. The Long Term Warrants allow the institutional investor to purchase an aggregate of 471,154 shares of the Company's common stock with an exercise price of $0.572 per share exercisable at anytime from December 16, 2005 through December 16, 2008; provided, however, the institutional investor will not be permitted to exercise a warrant to the extent that the number of shares of the Company's common stock beneficially owned by such institutional investor taken together with the number of shares to be issued upon exercise of the warrant equals or exceeds 4.999% of the Company's then issued and outstanding shares of common stock. The warrants also contain trading market restrictions that preclude the Company from issuing shares of common stock upon exercise thereof if such issuance, when aggregated with other issuances of the Company's common stock pursuant to the warrants, would exceed 19.999% of the Company's then issued and outstanding shares of common stock, unless the Company has previously obtained the required shareholder approval. Pursuant to a Registration Rights Agreement dated June 16, 2005 between the Company and the institutional investor, the Company agreed to file a registration statement for the resale of the shares of the Company's common stock that may be issued to the institutional investor upon the conversion of the convertible debenture and the exercise of the Short Term Warrants and the Long Term Warrants. The registration statement covering these securities was effective on September 1, 2005.

In accordance with Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), the debt features contained in the terms governing the notes are not clearly and closely related to the characteristics of the notes. Accordingly, the debt features qualify as embedded derivative instruments at issuance and, because they did not qualify for any scope exception within SFAS 133, they were required to be accounted for separately from the debt instrument and recorded as derivative financial instruments.

At the date of issuance, the embedded debt feature had an estimated initial fair value of $449,089, which was recorded as a discount to the convertible notes and derivative liability on our balance sheet. In subsequent periods, if the price of the security changes, the embedded derivative financial instrument related to the debt features will be adjusted to the fair value with the corresponding charge or credit to other income/(expense). The estimated fair value of the debt features was determined using the probability weighted averaged expected cash flows / Lattice Model with a closing price of $0.65, a conversion price as defined in the respective note agreement and a period of two years. Concerning the debt features, the model uses several assumptions including: historical stock price volatility, approximate risk-free interest rate (3.5%), remaining term to maturity, and the closing price of the company's common stock to determine the estimated fair value of the derivative liability. For the quarter ended December 31, 2006, due in part to a decrease in the market value of the Company's common stock , the Company recorded an other income item on the statement of operations for the change in fair value of the embedded debt feature of approximately $29,419. At December 31, 2006, the estimated fair value of the embedded debt feature was approximately $39,034.

The recorded value of the embedded debt feature related to this debt can fluctuate significantly based on fluctuations in the fair value of the Company's common stock.

The warrants included with this note for purchase of the Company's common stock had an initial value of $271,940. This amount has been classified as a derivative financial instrument and recorded as a liability on our consolidated balance sheet in accordance with SFAS 133. The estimated fair value of the warrants at the date of issuance was determined using the Black-Scholes option-pricing model with a closing price of $1.14, the respective exercise price of the warrants, a 2 year term, and a 90% volatility factor relative to the date of issuance. The model uses several assumptions including: historical stock price volatility, approximate risk-free interest rate (3.50%), remaining term to maturity, and the closing price of the company's common stock to determine the estimated fair value of the derivative liability. In accordance with the provisions of SFAS 133, the Company is required to adjust the carrying value of the instrument to its fair value at each balance sheet date and recognize any change since the prior balance sheet date as a component of other income/ (expense) on its statement of operations. The warrant derivative liability at December 31, 2006, decreased to a fair value of $70,826, due in part to a decrease in the market value of the company's common stock, which resulted in an other income item of $6,638.

The recorded value of the warrants can fluctuate significantly based on fluctuations in the market value of the underlying securities of the issuer of the warrants, as well as in the volatility of the stock price during the term used for observation and the term remaining for the warrants.

Due to changes in value upon the conversion of this debt when shares were issued for required principal payments, additional losses were incurred amounting to $73,946. This loss is the result of differences in the settlement method and the assumptions that were used in the original derivative valuation.

7. Accounts Receivable Facility

On September 27, 2006, the Company entered into a Purchase and Sale Agreement with Catalyst Finance, L.P. ("Catalyst") for sale of certain of its accounts receivables. The Company's borrowing costs under this Agreement range from 1.25% to 20% of the gross amount of the receivables sold to Catalyst based on the timing of collection. The maximum funds available under the agreement are all available accounts receivables as agreed to by Catalyst and the Company. The agreement allows for Catalyst to request repurchase of an account receivable under certain conditions. For the three and nine months period ended December 31, 2006, Catalyst has not requested repurchase of an account receivable. To date, the Company has sold $305,350 in receivables under the agreement, which yielded a loss on the sale of these receivables of $6,597. The Agreement will continue in effect until terminated by either party.

8. Commitments and Contingencies

Employment Agreements

On April 3, 2006, the Company entered into an employment agreement with each of its President, Payment Products Division and Vice Chairman, Sr. Vice President and Chief Technology Officer, and Vice President of Business Development and General Counsel, for a term of three years with automatic renewal for successive one-year terms unless either party gives timely notice of non-renewal.

Annual base salary for the President, Payment Products Division and Vice Chairman of the Company is $190,000 and pursuant to the terms of the agreement he is entitled to receive an option to purchase 550,000 shares of the Company's common stock. This option vests over a 3 year period with 150,000 shares vesting on April 3, 2006 and 200,000 shares vesting on each of April 3, 2007 and 2008. In addition the President, Payment Products Division and Vice Chairman is entitled to receive a bonus of $48,125 for year end 2006.

Annual base salary for the Senior Vice President and Chief Technology Officer of the Company is $185,000 and pursuant to the terms of the agreement he is entitled to receive 200,000 shares of restricted common stock. The restricted shares vest over a 3 year period with 25,000 shares vesting on April 3, 2006 and 87,500 shares vesting on each of April 3, 2007 and 2008. The Senior Vice President and Chief Technology Officer is also eligible to receive a quarterly bonus of equal to 3.5% of the increase in the Company's revenue from fiscal year quarter to fiscal year quarter and to receive a bonus of $78,750 for fiscal year 2006.

Annual base salary for the Vice President of Business Development and General Counsel of the Company is $175,000, and pursuant to the terms of the agreement he is entitled to receive an option to purchase 700,000 shares of the Company's common stock. This option vests over a 3 year period with 300,000 shares vesting on April 3, 2006 and 200,000 shares vesting on each of April 3, 2007 and, 2008. The Vice President of Business Development and General Counsel is also eligible to receive a quarterly bonus based upon the Company's future acquisitions or mergers.

On May 23, 2006, the Company entered into an employment agreement with its Chairman of the Board and Chief Executive Officer. The agreement has a 2 year term with automatic renewal for successive one year terms unless either party gives timely notice of non-renewal. His annual base salary is $220,000 and he is entitled to receive 100,000 shares of restricted common stock that vest immediately and is entitled to receive an option to purchase 600,000 shares of the Company's common stock. This option vests as to 300,000 shares on each of May 22, 2007 and 2008.

Litigation

In June 2005, two of our former employees initiated arbitration against the company alleging wrongful termination and sought severance pay. Arbitration was held on March 28, 2006 and on June 19, 2006, the arbitration ruled that each employee was entitled to $90,000 in severance pay, as well as costs and interest. These amounts were included in accrued liabilities at March 31, 2006. On August 25, 2006 all severance pay, as well as costs and interest due each employee was paid. These amounts were removed from accrued liabilities at September 30, 2006.

9. Stockholders' Equity

Preferred Stock

The Company has 10,000,000 authorized shares of $0.0001 par value preferred stock. The preferred stock may be issued in series, from time to time, with such designations, rights, preferences, and limitations as the Board of Directors may determine by resolution.

Convertible Series B Preferred Stock

The Company has 700,000 authorized shares of $0.0001 par value convertible Series B preferred stock.

In August and October 2000, the Company issued 509,333 and 133,666 units respectively, in a private placement for gross proceeds of $382,000 and $100,250, respectively. Each unit consisted of one share of the Company's voting convertible Series B preferred stock (the "Series B") and a warrant, exercisable through October 2003, to purchase one share of the Company's common stock. These warrants were not exercised and were cancelled in October of 2003. The Series B has a liquidation preference of $3.75 per share and carries a 10% cumulative dividend payable each March 1 and September 1. The Company has the right to redeem the Series B at any time after issuance at a redemption price of $4.15 per share, plus any accrued but unpaid dividends. The Series B is convertible upon issuance into shares of the Company's common stock at $3.75 per share. The warrant entitles the holder to purchase one share of the Company's common stock at $6.25 per share, which represents 115% of the market value of the Company's common stock at the closing date.

In May 2001, an investor in the Series B rescinded its acquisition and returned to the Company 13,333 shares of Series B and warrants for the purchase of 2,667 shares of common stock in exchange for the return of its investment of $10,000.

In August 2004, an investor in the Series B elected to convert his 79,999 shares and accordingly was issued 15,998 shares of the Company's common stock.

At December 31, 2006, there were accumulated, undeclared dividends in arrears of $241,842 or $0.44 per share.

Common Stock and Warrants

During the three and nine months ended December 31, 2006, the Company completed the following:

Non-Cash Financing

In the quarter ended June 30, 2006, the Company issued 303,116 shares of common stock with a value of $154,000 to pay down debt associated with the convertible promissory note issued June 16, 2005.

In the quarter ended September 30, 2006, the Company issued 287,173 shares of common stock with a value of $154,000 to pay down debt associated with the convertible promissory note issued June 16, 2005.

In the quarter ended December 31, 2006, the Company issued 314,253 shares of common stock with a value of $154,000 to pay down debt associated with the convertible promissory note issued June 16, 2005.

Sale of Common Stock and Warrants

On December 29, 2006, the Company entered into a stock purchase agreement (the "Purchase Agreement"), with Hyundai Syscomm Corp., a California corporation ("Hyundai"), pursuant to which the Company agreed to issue to Hyundai an aggregate of 6,100,000 shares of the Company's common stock, $0.0001 par value (the "Common Stock"), for an aggregate purchase price of $1,500,000 ("Purchase Shares"). In connection with the Purchase Agreement, and subject to shareholder approval, the Company also agreed to issue to Hyundai a warrant (the "Warrant") to purchase up to an aggregate of 14,300,000 shares of Common Stock (the "Warrant Shares"); provided, however, in no event shall the aggregate of Hyundai's Warrant Shares and Purchased Shares exceed 39.9% of the Company's total outstanding shares. Under no condition will Warrant Shares become issuable hereunder unless and until the Company secures the necessary vote from its shareholders in favor of the issuance of this Warrant. The Warrant will vest as to one million shares of Common Stock for each $1 million in gross profits allocated to Hyundai under the Resale Agreement. At Hyundai's option, it may elect to apply its allocation of gross profits to the payment of the exercise price of the exercise of any of the Warrant Shares. The exercise price will be $0.01 per share and it will have term of 10 years. The Purchase Shares and

Warrant are being held in escrow pending the Closing. The Closing, initially set for December 29, 2006, is expected to occur in March 2007.

During the three and nine months ended December 31, 2005, the Company completed the following:

Amendment of Convertible Promissory Note and Issuance of Warrant

On October 13, 2005, the Company amended and restated its 10% convertible debenture effective September 15, 2005 in the principal amount of $768,199.24, issued by the Company for the benefit of an accredited individual investor. This convertible debenture, originally dated September 15, 2004, was amended to extend the payment of the principal due and payable on September 15, 2005 until September 15, 2006. The final principal payment of $256,066 is due on September 15, 2007. In consideration of this amendment, the Company issued to the individual investor a common stock purchase warrant to purchase up to 650,000 shares of its common stock at an exercise price of $0.59 per share. The warrant will expire on September 15, 2008.

Sale of Warrants

On November 22, 2005, the Company entered into an agreement with the institutional investor owning the $770,000 convertible debenture issued June 16, 2005 whereby the investor agreed to (i) pay the Company $25,000 and (ii) waive all rights the institutional investor may have related to the Company's September 15, 2005 amended note agreement with an individual investor (see Note 5) in exchange for a common stock purchase warrant to purchase up to 650,000 shares of the Company's common stock at an exercise price of $0.59 per share, which warrant will expire on November 22, 2008. Using the Black-Scholes pricing model the Company has determined the value of the warrants issued in connection with this November 22, 2005 agreement to be $185,000. This amount, less the $25,000 proceeds received, has been recorded as Financing costs expense for the three and nine months ended December 31, 2005.

Sale of Common Stock and Warrants

Effective June 16, 2005, the Company entered into definitive agreements with nine accredited investors for the sale of 1,258,654 shares of the Company's common stock for gross proceeds of $600,000. The agreements also provide that the Company will issue warrants, exercisable over a three year period, to purchase up to 314,664 shares of the Company's common stock at an exercise price of $0.715 per share and an additional 314,664 shares of the Company's common stock at an exercise price of $0.812 per share. In July 2005, upon receipt of approval of the American Stock Exchange for issuance of the shares of the Company's common stock, the agreements were completed and the investors were issued the shares of the Company's common stock and warrants.

Stock Options

In August 1999, the Company implemented its 1999 Stock Option Plan (the "1999 Plan"). In August 2000, the Company's Board of Directors approved the 2000 Stock Option Plan (the "2000 Plan"), which amends and restates the 1999 Plan. In September 2006, shareholders approved an amendment to the Company's amended and restated 2000 stock option plan to increase the maximum aggregate number of shares available for issuance thereunder from 6,000,000 to 7,500,000. Under the 2000 Plan, the exercise price must not be less than the fair market value on the date of grant of the option. The options vest in varying increments over varying periods and expire 10 years from the date of vesting. In the case of incentive stock options granted to any 10% owners of the Company, the exercise price must not be less than 100% of the fair market value on the date of grant. Such incentive stock options vest in varying increments and expire five years from the date of vesting.

During the nine months ended December 31, 2006 the Company granted 3,114,500 stock options to certain employees that may be exercised at prices ranging between $0.46 and $0.82 per share. During the nine months ended December 31, 2005, the Company granted 1,161,900 stock options to certain employees that may be exercised at prices ranging between $0.44 and $0.65 per share.

The following table summarizes certain information relative to stock options:

	2000 Stock Option Plan		Outside of Plan	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, March 31, 2006	3,499,115	$ 0.92	1,160,000	$ 1.02
Granted	3,114,500	$ 0.58	0	0
Exercised	0	0	0	0
Forfeited/canceled	153,266	$ 1.40	0	0
Outstanding, December 31, 2006	6,460,349	$ 0.74	1,160,000	$ 1.02
Exercisable, December 31, 2006	3,795,849	$ 0.84	1,160,000	$ 1.02

The weighted-average remaining life and the weighted-average exercise price of all of the options outstanding at December 31, 2006 were 8.1 years and $0.78, respectively. The exercise prices for the options outstanding at December 31, 2006 ranged from $0.44 to $6.25, and information relating to these options is as follows:

Range of Exercise Prices	Stock Options Outstanding	Stock Options Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Weighted-Average Exercise Price of Options Exercisable
$0.44 - 0.80	5,038,513	2,749,013	8.52 years	$0.56	$0.55
$0.81 - 1.35	1,837,836	1,462,836	7.56 years	$0.93	$0.96
$1.36 - 6.25	744,000	744,000	7.10 years	$1.96	$1.96
	7,620,349	4,955,849			

Restricted Stock

The Company granted 200,000 shares of restricted common stock to the Senior Vice President and Chief Technology Officer and 100,000 shares of restricted common stock to the Chairman of the Board and Chief Executive Officer associated with employment agreements reached with each. The shares are granted under the 1999 stock option plan (the “1999 plan”) as amended and restated by the 2000 stock option plan (the “2000 plan”). The Company uses the Black-Scholes valuation model to determine the relative fair value of these shares at the time of issuance. The Company has determined that the aggregate fair value of the restricted shares granted to be $97,090.

Item 2. Management’s Discussion and Analysis or Plan of Operation.

The following discussion and analysis of our financial condition and results of operations should be read with the consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-QSB.

When used in this Quarterly Report on Form 10-QSB, the words “expects,” “anticipates,” “believes,” “plans,” “will” and similar expressions are intended to identify forward-looking statements. These are statements that relate to future periods and include, but are not limited to, statements regarding our critical accounting policies, our ability to add new transaction pricing customers, anticipated decrease in maintenance fees, benefits of our license agreement and consulting agreement with American Express Company, our operating expenses, our strategic opportunities, adequacy of capital resources, our potential professional services contracts and the related benefits,

demand for software and professional services, demand for our solutions, expectations regarding net losses, expectations regarding cash flow and sources of revenue, benefits of our relationship with an MSP and Hyundia, statements regarding our growth and profitability, investments in marketing and promotion, fluctuations in our operating results, our need for future financing, our dependence on our strategic partners, our dependence on personnel, our disclosure controls and procedures, our ability to respond to rapid technological change, statements regarding future acquisitions or investments and our transaction with Hyundai. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, those discussed below, as well as risks related to our ability to develop and timely introduce products that address market demand, the impact of alternative technological advances and competitive products, market fluctuations, our ability to obtain future financing, our ability to close our transaction with Hyundai, performance under the Hyundai agreement, and the risks set forth below under “Factors That May Affect Our Results.” These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Critical Accounting Policies

The following discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate these estimates, including those related to revenue recognition and concentration of credit risk. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe that of the significant accounting policies used in the preparation of our financial statements (see Note 2 to the Financial Statements), the following are critical accounting policies, which may involve a higher degree of judgment, complexity and estimates.

Revenue Recognition

We recognize revenues in accordance with the provisions of the American Institute of Certified Public Accountants’ Statement of Position 97-2, “Software Revenue Recognition,” or SOP 97-2. We license our software products under non-exclusive, non-transferable license agreements. These arrangements do not require significant production, modification or customization, therefore revenue is recognized when the license agreement has been signed, delivery of the software product has occurred, the related fee is fixed or determinable and collectibility is probable.

In certain instances, we license our software on a transactional fee basis in lieu of an up-front licensing fee. In these arrangements, the customer is charged a fee based upon the number of items processed by the software and we recognize revenue as these transactions occur. The transaction fee also includes the provision of standard maintenance and support services as well as product upgrades should such upgrades become available.

If professional services are provided in conjunction with the installation of the software licensed, revenue is recognized when those services have been provided.

For license agreements that include a separately identifiable fee for contracted maintenance services, such revenues are recognized on a straight-line basis over the life of the maintenance agreement noted in the license agreement, but following any installation period of the software.

Goodwill

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142 “Goodwill and Other Intangible Assets,” or SFAS No. 142, which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS No. 142, all goodwill amortization ceased effective January 1, 2002.

The goodwill recorded on our books is from the acquisition of US Dataworks, Inc. in fiscal year 2001, which remains our single reporting unit. SFAS No. 142 requires goodwill for each reporting unit of an entity to be tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value is determined using a combination of the discounted cash flow, market multiple and market capitalization valuation approaches. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and estimates of market multiples for each reportable unit. On an ongoing basis, absent any impairment indicators, the Company performs impairment tests annually during the fourth quarter.

SFAS No. 142 requires goodwill to be tested annually and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of the reportable unit below its carrying amount. We did not have an impairment of goodwill to record for the years ended March 31, 2006 or March 31, 2005. In addition, during the quarters ended December 31, 2006 and 2005, the company noted no events or circumstances that would indicate the need to evaluate the impairment of its goodwill.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk

We extend credit to our customers and perform ongoing credit evaluations of our customers. We do not obtain collateral from our customers to secure our accounts receivable. We evaluate our accounts receivable on a regular basis for collectibility and provide for an allowance for potential credit losses as deemed necessary.

Four of our customers accounted for 20%, 17%, 17% and 12%, respectively, of our net revenues for the three months ended December 31, 2006. Three customers accounted for 29%, 19% and 12%, respectively, of net revenues for the nine months ended December 31, 2006. Three customers accounted for 43%, 25% and 12% of net revenues for the three months ended December 31, 2005. Two customers accounted for 51% and 20%, respectively, of net revenues for the nine months ended December 31, 2005.

At December 31, 2006, amounts due from significant customers accounted for 67% of accounts receivable.

Results of Operations

The results of operations reflected in this discussion include our operations for the three and nine month periods ended December 31, 2006 and 2005.

Revenues

We generate revenues from (a) licensing software with fees due at the initial term of the license, (b) licensing and supporting software with fees due on a transactional basis, (c) providing maintenance, enhancement and support for previously licensed products and (d) providing professional services.

	Three Months Ended December 31, 2006	Three Months Ended December 31, 2005	Change	Nine Months Ended December 31, 2006	Nine Months Ended December 31, 2005	Change
	(In 000's)			(In 000's)		
Software licensing revenues	$ 94	$ 89	6%	$ 609	$ 1,840	-67%
Software transactional revenues	533	237	125%	1,139	650	75%
Software maintenance revenues	109	105	4%	316	331	-5%
Professional service revenues	984	656	50%	2,693	2,078	30%
Total revenues	$ 1,720	$ 1,087	58%	$ 4,757	$ 4,899	-3%

Licensing revenues increased 6% for the three months ended December 31, 2006 and decreased 67% for the nine months ended December 31, 2006, compared to the same periods last year. The three month increase is primarily related to the increase in sales of 3 rd party software add-ons by our new customers. The nine month decrease is primarily due to $1,532,000 of license revenue recorded, on a percentage of completion, in the prior year period associated with amending our license agreement with American Express Company, a significant customer, in August 2005. During the nine months ended December 31, 2006, we recorded $59,500 of license revenue under this agreement, all of which was recorded in the three month ended December 31, 2006. As of December 31, 2006, $59,500 of license revenue remains to be recorded under this agreement.

Transactional revenues increased 125% for the three months ended December 31, 2006 and 75% for the nine months ended December 31, 2006, compared to the same periods last year. These increases are principally a result of an increase in the number of customers utilizing our software solutions on a transaction fee basis and an increase in utilization of our software solutions by our current customers.

Maintenance revenues increased 4% for the three months ended December 31, 2006 and decreased 5% for the nine months ended December 31, 2006, compared to the same periods last year. The decrease for the nine months is primarily related to an increase in customers utilizing our software solution on transaction basis. As we continue to have success in adding new customers whose license and support contracts are based upon transactional pricing, we expect our annual maintenance fees to remain flat or decrease. However, we expect this trend to be partially offset by annual maintenance fees generated under our license agreement with American Express Company, which provides for an annual maintenance fee. We expect to receive approximately $400,000 in fiscal 2007 under this agreement.

Professional service revenues increased 50% for the three months ended December 31, 2006 and 30% for the nine months ended December 31, 2006, compared to the same periods last year. These increases were principally the result of additional service revenues recorded in connection with our consulting agreement with American Express, which we signed in June 2005. In connection with this consulting agreement, we received a purchase order for $1,200,000 in professional services in August 2005, which we fully recorded in March 2006. We received an additional purchase order for $1,521,250 in professional services in September 2006, of which we recorded $304,650 and $939,131 in the three months and nine months ended December 31, 2006, respectively. In addition, under our agreement with Online Resources Corporation, which we signed in June 2006, we recorded $131,625 and $390,937 in the three months and nine months ended December 31, 2006, respectively.

Cost of Sales

Costs of sales principally include the costs of our personnel who perform the services associated with our software maintenance, support, training and installation activities as well as the cost of Accuity EPICWare™ software frequently resold in conjunction with licenses of our software. Cost of sales increased by $219,027, or 68%, from $321,100 for the three months ended December 31, 2005 to $540,127 for the three months ended December 31, 2006. Cost of sales increased by $455,898, or 41%, from $1,103,956 for the nine months ended December 31, 2005 to $1,559,854 for the nine months ended December 31, 2006. The increases were principally the result of increased labor costs associated with the service activities that resulted in a 50% and 30% increase in professional service revenues for the three months and nine months ended December 31, 2006, respectively, compared to the same periods last year.

Operating Expenses

Total operating expenses increased by $49,764, or 4%, from $1,352,720 for the three months ended December 31, 2005 to $1,402,484 for the three months ended December 31, 2006.

The overall increase in operating expenses in the three month period is principally due to a $163,000 increase in legal fees primarily related to our investigation of potential acquisition targets, $127,000 in stock-based compensation expense, offset by a reduction of $132,000 in salary expense, and a $75,000 reduction in various marketing, accounting, depreciation and office expenses. This decrease in expenses is a result of a reduction in the number of more highly compensated personnel as compared to the same period last year.

Total operating expenses increased by $565,199, or 13%, from $4,436,724 for the nine months ended December 31, 2005 to $5,001,923 for the nine months ended December 31, 2006. The increase in operating expenses in the nine month period is principally attributable to an increase of $517,000 in stock-based compensation expense related to our adoption of FSAS 123R at the beginning of this fiscal year, $347,000 in legal fees related to our investigation of potential acquisition targets and legal fees related to arbitration hearings of two former employees, a $300,000 increase in outside consulting services and a $128,000 increase in bonus payments to executive officers and salesmen relating to employment contracts. These expenses were offset by a decrease of $452,000 in salary expense, a $164,000 decrease in depreciation expense, $89,000 reduction in advertising and marketing expense and a $19,000 reduction in insurance expenses. This decrease in expenses is a result of a reduced number of staff over the first half of the current year as compared to the same time period last year. The increase in the overall staff for the year occurred late in the current period ending Dec 31, 2006. Additionally, on March 31, 2006, a significant asset became fully depreciated accounting for the reduction in depreciation expense for the current year. We anticipate that our operating expense will continue to increase going forward as we expect to continue to add to staff, engage outside consulting services when needed and pursue any strategic opportunities as they become available. Our headcount at December 31, 2006 was 41 compared to 38 at December 31, 2005.

Other Expenses

Other expenses, including interest expense and financing costs, decreased $115,163 or 54% from $213,630 for the three months ended December 31, 2005 to $98,467 for the three months ended December 31, 2006. This decrease is primarily related to our November 2005 agreement with an institutional investor related to the issuance of a common stock purchase warrant in exchange for the investor waiving all rights the investor may have related to our September 15, 2005 amended note agreement with another individual investor (see Note 6). The common stock purchase warrant allows the investor to purchase up to 650,000 shares of our common stock at an exercise price of $0.59 per share, which warrant will expire on November 22, 2008. Using the Black-Scholes pricing model we have determined the value of the warrant issued in connection with this November 22, 2005 agreement to be $185,000. This amount, less the $25,000 proceeds received, was recorded as Financing costs expense for the three months ended December 31, 2005.

Other expenses, including interest expense and financing costs, increased $63,258, or 49%, from $128,967 for the nine months ended December 31, 2005 to $192,225 for the nine months ended December 31, 2006.

Net Loss

Net loss decreased $479,706, or 60%, from $800,897 for the three months ended December 31, 2005 to a net loss of $321,192 for the three months ended December 31, 2006.

Net loss increased by $1,226,891, or 160%, from $770,462 for the nine months ended December 31, 2005 to a net loss of $1,997,353 for the nine months ended December 31, 2006.

Liquidity and Capital Resources

We have incurred significant losses and negative cash flows from operations for the last three fiscal years. We have obtained our required cash resources through the sale of debt and equity securities. We may not operate profitably in the future and may be required to continue the sale of debt and equity securities to finance our operations.

We have specific plans to address our financial situation as follows:

- We received a purchase order for professional services from American Express Company in September 2006 that we expect will generate revenue sufficient to significantly reduce the negative cash flows from our operations for fiscal 2007.
- Additionally, we believe that the demand for our software and professional services will continue to expand as the United States market adopts the new payment processing opportunities available under changing regulations such as the Check Clearing Act for the 21 st Century and NACHA's back office conversion, which allows the conversion of paper checks in the back offices of retail merchants and government. We believe that increased demand for our solutions, including our recently introduced Clearingworks product, will lead to increased cash flows from up-front license fees, transaction based contract fees and increases in professional services revenues.
- We have entered into a strategic alliance with one of the largest merchant service providers, or MSP, which will allow this MSP to sell Clearingworks as part of its ARC and back office conversion services. We expect this alliance to positively affect our profitability.
- Our alliance with Hyundai Syscomm Corp. will allow the us to resale, automated teller machines enhanced with our software. We expect this alliance to positively affect our profitability.

There can be no assurance that our planned activities will be successful or that we will ultimately attain profitability. Our long term viability depends on our ability to obtain adequate sources of debt or equity funding to fund the continuation of our business operations and to ultimately achieve adequate profitability and cash flows to sustain our operations. We will need to increase revenues from software licenses, transaction based software license contracts and professional services agreements to become profitable.

Cash and cash equivalents decreased by $1,207,931 from $1,290,438 at March 31, 2006 to $82,507 at December 31, 2006. Cash used for operating activities was $1,046,700 in the nine months ended December 31, 2006 compared to $1,609,699 in the same nine month period in the prior year.

Cash used for investing activities of $149,098 and $112,135 in the nine months ended December 31, 2006 and December 31, 2005, respectively, was due to equipment purchases.

Cash used in financing activities for the nine months ended December 31, 2006, was $12,133 compared to cash provided of $1,310,000 in the nine months ended December 31, 2005. Financing activities in the current nine month period included: proceeds of $500,000 from a related party loan, and the payment of $512,133 on the amended and restated convertible promissory note date September 15, 2005.

As a result of our recent capital raising transactions, our increased level of transactional revenues achieved in fiscal 2007, and the expected increase in revenues from recently received purchase orders and contemplated contracts, we believe we currently have adequate capital resources to fund our anticipated cash needs through June 30, 2007 and beyond. However, an adverse business or legal development could require us to raise additional financing sooner than anticipated. We recognize that we may be required to raise such additional capital, at times and in amounts, which are uncertain, especially under the current capital market conditions. If we are unable to acquire additional capital or are required to raise it on terms that are less satisfactory than we desire, it may have a material adverse effect on our financial condition. In the event we raise additional equity, these financings may result in dilution to existing shareholders.

Factors That May Affect Our Results

We have a general history of losses and may not operate profitably in the future.

We have incurred losses for the last three fiscal years. Our net losses and negative cash flow may continue for the foreseeable future. As of December 31, 2006, our accumulated deficit was $(49,108,291). We believe that our planned growth and profitability will depend in large part on our ability to promote our brand name and gain clients and expand our relationships with clients for whom we would provide licensing agreements and system integration. Accordingly, we intend to invest heavily in marketing, strategic partnerships, development of our client base and development of our marketing technology and operating infrastructure. If we are not successful in promoting our brand name and expanding our client base, it will have a material adverse effect on our financial condition and our ability to continue to operate our business.

Our ability to continue as a going concern may be contingent upon our ability to secure capital from prospective investors or lenders.

The accompanying consolidated financial statements have been prepared assuming we will continue on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We believe we currently have adequate cash to fund anticipated cash needs through June 30, 2007. However, we may need to raise additional capital in the future. Any equity financing may be dilutive to shareholders, and debt financing, if available, will increase expenses and may involve restrictive covenants. We may be required to raise additional capital, at times and in amounts that are uncertain, especially under the current capital market conditions. These factors raise substantial doubt about our ability to continue as a going concern. Under these circumstances, if we are unable to obtain additional capital or are required to raise it on undesirable terms, it may have a material adverse effect on our financial condition, which could require us to:

- curtail our operations significantly;
- sell significant assets;
- seek arrangements with strategic partners or other parties that may require us to relinquish significant rights to products, technologies or markets; or
- explore other strategic alternatives including a merger or sale of US Dataworks.

Our financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or liabilities that might be necessary should we be unable to continue as a going concern.

Our operating results are subject to fluctuations caused by many factors that could cause us to fail to achieve our revenue or profitability expectations, which in turn could cause our stock price to decline.

Our operating results can vary significantly depending upon a number of factors, many of which are outside our control. Factors that may affect our quarterly operating results include:

- market acceptance of and changes in demand for our products and services;
- gain or loss of clients or strategic relationships;
- announcement or introduction of new software, services and products by us or by our competitors;
- our ability to build brand recognition;
- timing of sales to customers;

- price competition;
- our ability to upgrade and develop systems and infrastructure to accommodate growth;
- our ability to attract and integrate new personnel in a timely and effective manner;
- our ability to introduce and market products and services in accordance with market demand;
- changes in governmental regulation;
- reduction in or delay of capital spending by our clients due to the effects of terrorism, war and political instability; and
- general economic conditions, including economic conditions specific to the financial services industry.

In addition, each quarter we derive a significant portion of our revenue from agreements signed at the end of the quarter. Our operating results could suffer if the timing of these agreements is delayed. Depending on the type of agreements we enter into, we may not be able to recognize revenue under these agreements in the quarter in which they are signed. Some of all of these factors could negatively affect demand for our products and services, and our future operating results.

Most of our operating expenses are relatively fixed in the short-term. We may be unable to adjust spending rapidly to compensate for any unexpected sales shortfall, which could harm our quarterly operating results. Because of the emerging nature of the markets in which we compete, we do not have the ability to predict future operating results with any certainty. Because of the above factors, you should not rely on period-to-period comparisons of results of operation as an indication of future performances.

We may not be able to maintain our relationships with strategic partners, which may cause our cash flow to decline.

We may not be able to maintain our relationships with strategic partners, such as BancTec and Computer Sciences Corporation. These strategic relationships are a core component of our sales and distribution strategy. The loss of a strategic partner could harm our financial results.

Because a small number of customers have historically accounted for and may in future periods account for substantial portions of our revenue, our revenue could decline because of delays of customer orders or the failure to retain customers.

We have a small number of customers that account for a significant portion of our revenue. Our revenue could decline because of a delay in signing agreements with a single customer or the failure to retain an existing customer. Furthermore, we may not obtain additional customers. The failure to obtain additional customers and the failure to retain existing customers will harm our operating results.

If general economic and business conditions do not improve, we may experience decreased revenue or lower growth rates.

The revenue growth and profitability of our business depends on the overall demand for computer software and services in the product segments in which we compete. Because our sales are primarily to major banking and government customers, our business also depends on general economic and business conditions. A softening of demand caused by a weakening of the economy may result in decreased revenue or lower growth rates. As a result, we may not be able to effectively promote future license revenue growth in our application business.

We may not be able to attract, retain or integrate key personnel, which may prevent us from successfully operating our business.

We may not be able to retain our key personnel or attract other qualified personnel in the future. Our success will depend upon the continued service of key management personnel. The loss of services of any of the key members of our management team or our failure to attract and retain other key personnel could disrupt operations and have a negative effect on employee productivity and morale and harm our financial results.

We operate in a market that is intensely and increasingly competitive, and if we are unable to compete successfully, our revenue could decline and we may be unable to gain market share.

The market for financial services software is relatively new and highly competitive. Our future success will depend on our ability to adapt to rapidly changing technologies, evolving industry standards, product offerings and evolving demands of the marketplace.

Some of our competitors have:

- longer operating histories;
- larger installed customer bases;
- greater name recognition and longer relationships with clients; and
- significantly greater financial, technical, marketing and public relations resources than US Dataworks.

Our competitors may also be better positioned to address technological and market developments or may react more favorably to technological changes. We compete on the basis of a number of factors, including:

- the breadth and quality of services;
- creative design and systems engineering expertise;
- pricing;
- technological innovation; and
- understanding clients' strategies and needs.

Competitors may develop or offer strategic services that provide significant technological, creative, performance, price or other advantages over the services we offer. If we fail to gain market share or lose existing market share, our financial condition, operating results and business could be adversely affected and the value of the investment in us could be reduced significantly. We may not have the financial resources, technical expertise or marketing, distribution or support capabilities to compete successfully.

We may be responsible for maintaining the confidentiality of our client's sensitive information, and any unauthorized use or disclosure could result in substantial damages and harm our reputation.

The services we provide for our clients may grant us access to confidential or proprietary client information. Any unauthorized disclosure or use could result in a claim against us for substantial damages and could harm our reputation. Our contractual provisions attempting to limit these damages may not be enforceable in all instances or may otherwise fail to adequately protect us from liability for damages.

If we do not adequately protect our intellectual property, our business may suffer, we may lose revenue or we may be required to spend significant time and resources to defend our intellectual property rights.

We rely on a combination of patent, trademark, trade secrets, confidentiality procedures and contractual procedures to protect our intellectual property rights. If we are unable to adequately protect our intellectual property,

our business may suffer from the piracy of our technology and the associated loss in revenue. Any patents that we may hold may not sufficiently protect our intellectual property and may be challenged by third parties. Our efforts to protect our intellectual property rights, may not prevent the misappropriation of our intellectual property. These infringement claims or any future claims could cause us to spend significant time and money to defend our intellectual property rights, redesign our products or develop or license a substitute technology. We may be unsuccessful in acquiring or developing substitute technology and any required license may be unavailable on commercially reasonable terms, if at all. In the event of litigation to determine the validity of any third party claims or claims by us against such third party, such litigation, whether or not determined in our favor, could result in significant expense and divert the efforts of our technical and management personnel, regardless of the outcome of such litigation. Furthermore, other parties may also independently develop similar or competing products that do not infringe upon our intellectual property rights.

We may be unable to consummate future potential acquisitions or investments or successfully integrate acquired businesses or investments or foreign operations with our business, which may disrupt our business, divert management's attention and slow our ability to expand the range of our technologies and products.

We intend to continue to expand the range of our technologies and products, and we may acquire or make investments in additional complementary businesses, technologies or products, if appropriate opportunities arise. We may be unable to identify suitable acquisition or investment candidates at reasonable prices or on reasonable terms, or consummate future acquisitions or investments, each of which could slow our growth strategy. We have no prior history or experience in investing in or acquiring and integrating complementary businesses and therefore may have difficulties completing such transactions or realizing the benefits of such transactions, or they may have a negative effect on our business. Such investments or acquisitions could require us to devote a substantial amount of time and resources and could place a significant strain on our management and personnel. To finance any acquisitions, we may choose to issue shares of our common stock, which would dilute your interest in us. Any future acquisitions by us also could result in significant write-offs or the incurrence of debt and contingent liabilities, any of which could harm our operating results.

Item 3. Controls and Procedures

(a) ***Evaluation of disclosure controls and procedures*** . We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, or the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-QSB, our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, have concluded that, as of that date, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) ***Changes in internal control over financial reporting*** . There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with management's evaluation during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We entered into a Stock Purchase Agreement, or the Purchase Agreement, on December 29, 2006 with Hyundai Syscomm Corp., a California corporation, or Hyundai, pursuant to which we agreed to issue to Hyundai an aggregate of 6,100,000 shares of our common stock, $0.0001 par value, or Common Stock, for an aggregate purchase price of $1,500,000, or Purchased Shares. In connection with the Purchase Agreement, and subject to shareholder approval, we also agreed to issue to Hyundai a warrant, or Warrant, to purchase up to an aggregate of 14,300,000 shares of Common Stock, or Warrant Shares; provided; however, in no event shall the aggregate of Hyundai's Warrant Shares and Purchased Shares exceed 39.9% of our total outstanding shares. The Warrant will vest as to one million shares of Common Stock for each $1 million in gross profits allocated to Hyundai under that certain Software Integration and Resale Agreement we entered into with Hyundai on December 29, 2006. At Hyundai's option, it may elect to apply its allocation of gross profits to the payment of the exercise price for the exercise of any of the Warrant Shares. The exercise price will be $0.01 per share and it will have a term of 10 years. The Purchase Shares and the Warrant are being held in escrow pending Closing. The Closing, initially set for December 29, 2006, is expected to occur in March 2007 The issuance of the Purchase Shares and the Warrant will be made pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Item 6. Exhibits

Exhibit Number	Description of Document
4.1	Rights Agreement, dated July 24, 2003, by and between the Registrant and Corporate Stock Transfer (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 5, 2007).
4.2	Amendment No. 1 to Rights Agreement, dated December 29, 2006, by and between the Registrant and American Stock Transfer & Trust. (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 5, 2007).
4.3	Stock Purchase Warrant issued on December 29, 2006 by and between the Registrant to the benefit of Hyundai Syscomm Corp. (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 5, 2007).
4.4	Registration Rights Agreement, dated December 29, 2006, by and between the Registrant and Hyundai Syscomm Corp. (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 5, 2007).
10.1	Amendment Agreement, dated as of December 28, 2006, by and between the Registrant and Crescent International Ltd. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2006).
10.2	Stock Purchase Agreement, dated December 29, 2006, by and between the Registrant and Hyundai Syscomm Corp. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 5, 2007).
10.3	Software Integration and Resale Agreement, dated December 29, 2006, by and between the Registrant and Hyundai Syscomm Corp. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 5, 2007).

Exhibit Number	Description of Document
10.4	Schedule Number 1 to Master License Agreement, dated July 22, 2005, by and between the Registrant and American Express Travel Related Services Company.
10.5	Master License Agreement, effective as of October 15, 1999, by and between the Registrant and American Express Travel Related Services Company.
31.1	Section 302 Certification of Chief Executive Officer.
31.2	Section 302 Certification of Chief Accounting Officer.
32.1	Section 906 Certification of Chief Executive Officer.
32.2	Section 906 Certification of Chief Accounting Officer.

SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 14, 2007

US DATAWORKS, INC.

By /s/ John T. McLaughlin

John T. McLaughlin
Chief Accounting Officer
(Principal Financial and Accounting Officer
and Duly Authorized Officer)

EXHIBIT INDEX

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32.2	Section 906 Certification of Chief Accounting Officer.

Schedule Number 1 to Master License Agreement Number: AEFA-10/4/99-KF-1

This Schedule is issued pursuant to a License Agreement (the "Agreement") between American Express Travel Related Services Company, Inc. ("Amexco") and the Licensor specified below, entered into on October 15, 1999 which Agreement shall be amended by this Schedule No. 1. In accordance with the provisions of the said Agreement and the provisions of this Schedule, Licensor will provide Licensee with the Products (as described in the Statement of Work, attached to the Master Agreement for Consulting Services, dated June 3, 2005) in the number of copies and at the Installation Site(s) specified below. If any provision of the Agreement or a prior schedule contradicts any provision of this Schedule, the provisions of this Schedule shall apply with respect to the Products licensed pursuant to this Schedule.

Copies of Products; Installation Sites

Licensor shall provide Amexco: (i) one copy of the Products for planning/testing in the testing environment (E1); (ii) one copy of the Products for planning/testing in the development environment (E2); (iii) one copy of the Products for planning/testing in the production system (E3); and, (iv) one copy of the Products, guaranteed, and as many additional copies of the Products as Amexco may request, and Licensor consent to (such consent not to be unreasonably withheld), for the purposes of planning/testing of Business Continuity Planning and Disaster Recovery ("BCP/DR"). Licensor shall provide planning/testing of E1, E2 and E3 as part of its regular maintenance servicing of the Products and without additional charge to Amexco; however, any planning/testing of BCP/DR performed by Licensor shall not be deemed to be part of its regular maintenance servicing of the Products and Licensor shall have the right to charge Amexco for such planning/testing at a rate to be mutually agreed upon by the parties. The aforementioned copies of the Products may be installed at any location ("Installation Site") operated by Licensee, wholly owned subsidiary of Licensee and/or any Licensee outsourced partner, provided such outsourcer first executes a third party access agreement acceptable to Licensor.

Scheduled Delivery Date

The Products will be delivered by August 12, 2005.

Products

All Products are licensed for use by any Licensee, wholly owned subsidiary of Licensee and/or outsourced Licensee partner location during the term of the license granted herein. The Warranty Period shall extend until Amexco's acceptance of the Products, pursuant to Article 3 of the Agreement.

Amendments to the Agreement

Section 5.3 of the Agreement shall be amended hereinafter to delete from the second line the phrase "affiliates, joint ventures or other parties" and replace it with "and affiliates".

Section 7.1 of the Agreement shall be amended hereinafter to add the following: "Amexco agrees to provide USD with reasonable remote access so as to permit USD to correct and repair the Products as contemplated in this Article 7."

The first line of Section 9.3 of the Agreement shall be amended hereinafter to replace "USDA's" with "USD's".

Designated Computer

Any computer(s) owned by or leased to Licensee, wholly owned subsidiary of Licensee and/or outsourced Licensee partner location executing a version of an operating system that is generally supported by Licensor for the applicable Product(s) licensed herein.

Licensor : US Dataworks, Inc.

Licensee : American Express Inc.

License Term : Ten (10) year term

License Type : Full-use Term License

Installation : Amexco, or its designee, and Licensor shall mutually install the Products.

Acceptance Testing : For purposes of Section 3.1 of the Agreement, acceptance testing shall be deemed to commence upon the initiation of the testing of the Products at E3.

Authorization Codes : With the exception of Licensor's CPU verification and expiration date routines, Licensor warrants that it has taken reasonable precautions to prevent the introduction into the Products of any "viruses," "time bombs," "trojan horses," and other intentionally disabling devices (hereinafter "Disabling Devices") and that to the best of Licensor's knowledge, the Products are free of Disabling Devices.

License Fees :

	Capture Controller	Payments	Clearingworks	Returns	Total
Final & Firm Price	$425,000	$680,000	$595,000	$680,000	$2,380,000

License Fee Payment Schedule:

The License Fee for the Products shall be payable to Licensor according to the following schedule: (i) twenty-five percent (25%) of the total License Fee upon execution of this Schedule; (ii) thirty percent (30%) of each Product's License Fee upon Licensor's installation of such Product at the Installation Site; (iii) thirty percent (30%) of each Product's License Fee upon Amexco's acceptance of such Product (pursuant to Article 3 of the Agreement); and, (iv) the remaining fifteen percent (15%) of each Product's License Fee upon the earlier to occur: (a) thirty (30) calendar days following Amexco's acceptance of such Product, (b) one (1) calendar day following actual production being run on such Product, or, (c) March 31, 2006.

License Rejection; Reimbursement:

At any time prior to the ninetieth (90 th) calendar day following the Production Date (as such term is defined herein), Amexco shall have the right to reject the Products and receive from Licensor a full reimbursement of any License Fees actually paid to Licensor; provided, that Amexco can

describe, in writing and in reasonable detail: (i) how the Products substantially failed to perform/comply with the Specifications, Documentation and any other criteria and procedures mutually agreed upon and set forth in the Statement of Work, attached to the Master Agreement for Consulting Services, dated June 3, 2005 (such writing hereinafter a "Rejection Notice"), and, (ii) how Licensor, upon receipt of the Rejection Notice and being given a reasonable period of time to cure thereafter (but in no instance less than 90 days following the following actual production being run on the Product), has failed to get the Products to perform/comply with the Specifications, Documentation and the Statement of Work and that Licensor's continued efforts, over a reasonable period of time, would nonetheless be inadequate to cure to the satisfaction of Amexco. For the purpose of this section, "Production Date" shall mean: (i) for both the ***Clearingworks*** (ARC and Check 21) and the ***Returns*** (auto-return check) functionalities, that date upon which the first production transaction is actually processed electronically (expected to be *via* (FAS)); and, (ii) for both the ***Capture Controller*** and ***Payments*** functionalities, that date upon which the first production lock box transaction is actually processed.

Upon Amexco's rejection of the Products and request for reimbursement, Licensor shall promptly reimburse, without interest, all License Fees received from Amexco. Amexco shall promptly return all Software and Documentation to Licensor, including, but not limited to, all discs, tapes, documentation or other physical embodiments of the Software and Documentation, and shall certify to Licensor that it has not retained any copies of the Software and that it acknowledges that it may no longer use the Software or Documentation. Amexco may only reject all of the Products, as a whole; it may not reject part of the Products and continue to license any other part of the Products, unless otherwise agreed by the parties.

Maintenance Fees:

Maintenance Fees shall be invoiced annually, in advance, upon Amexco's acceptance of the Products pursuant to Article 3 of the Agreement and on each one-year anniversary thereafter.

Maintenance (24x7 Coverage):

Year 1	$476,000
Year 2	423,640
Year 3	377,040
Year 4	335,565
Year 5	318,787
Year 6	302,848
Year 7	302,848
Year 8	302,848
Year 9	302,848
Year 10	302,848

Third Party Software Pass-through:

Amexco acknowledges that certain third party software solutions, specifically identified in Attachment 1 ("Third Party Software"), are integral to the functionality of the Products, though the license fees of such Third Party Software are not included in the License Fee, Maintenance Fee or Professional Services Fee. For avoidance of doubt, the parties acknowledge and agree that Amexco shall purchase the Third Party Software directly from the corresponding vendor and Amexco shall be solely responsible for the payment of all license fees directly to the corresponding vendor.

This Schedule is subject to the following special provisions:

1. Licensee hereby agrees that the Product licensed herein shall only be used for Licensee's internal operations for processing its own or its customers' data. Under no circumstance shall Licensee reverse compile, reverse assemble or otherwise reverse engineer such Products. Licensee may only grant access to the Products licensed pursuant to this Schedule to an employee(s) of American Express Inc. and/or a wholly owned subsidiary of American Express, Inc. ("Related Employee") provided such Related Employee(s) has first executed an agreement that commits such Related Employee(s) to conduct that would not violate Licensee's obligations pursuant to the Agreement and this Schedule.
2. The products referenced in this Schedule shall be placed into Escrow per the terms of Article 6 of the Agreement.

Licensor:	Licensee:
US DATAWORKS, INC.	**AMERICAN EXPRESS INC.**
/s/ Terry E. Stepanik	/s/ Kevin Park
Signature	Signature
Terry E. Stepanik	Kevin Park
Name	Name
President & COO	Director, Global Procurement
Title	Title
7/6/05	7/22/05
Date	Date

EXHIBIT A

DELIVERABLE ENCRYPTION INFORMATION

Encryption Information

Identify each hardware and software component of each of the Products having encryption capability by its respective unbundled part number and level of encryption.

Product Component(s)	Unbundled Part Number	Level of Encryption (e.g 40 bit, 56 bit, 128 bit etc.)	Type (e.g. DES, Blowfish RC2, CAST etc.)

Export License Information

Indicate in connection with each part number for each component the Commodity Classification or Export License or License Exception granted — for example, "Mass Market License Exception, TSU" Or "License Exception, ENC" by the US Department of Commerce, Bureau of Export Administration, providing in each case the Export Control Classification Number (and Paragraph, if applicable), — and the date of the US DOC/BXA finding in each case.

Product Component(s)	Unbundled Part Number	Export Control Classification Number Card Paragraph, If Applicable	Did you Receive a Commodity Classification?	Did you Receive an Export License?	Did you Receive a License Exception ENC? Provide Applicable Regulation e.g., 15 CFR 742.15(b)(4)	USDOC/BXA Date of Finding

Licensor's Contact

Identify Licensor's export manager or contact responsible for filing or obtaining the export licenses or license exceptions for the Products.

Name:	
Address	
Telephone Number:	
Email Address:	

Import License Information

Indicate in connection with each part number for each component whether any import license was applied for, granted or rejected, the name of the country granting the license, and whether or not the license extends to Licensor's customers.

Product Component(s)	Unbundled Part Number	Import License Date Applied For	Import License Granted or Rejected	License Number Indicated	Indicate if License to Import Extends to SAP's Customer?	Country Granting Import License

Identify your Company's Web Site, if any, where information can be found relating to the technical specifications and export or import of the Products.

Name:	
Address:	
Telephone Number:	
Email Address:	

Attachment 1
Third Party Software

Crystal Reports MS SQL Server
IBM UDB
IBM MQ Series
IBM Websphere (or Tomcat or BEA Weblogic)
A2iA CheckReader
Thomson EPICWare & Thomson Bank File
SftTree (UDW supplied at no cost)
View/Director ActiveX controls (UDW supplied at no cost)

Exhibit 10.5

MASTER LICENSE AGREEMENT

Licensor: Allstate Dataworks, LLC
DBA US Dataworks
5301 Hollister, Suite 250
Houston, Texas 77040-6132
Contact: Terry Stepanik

Agreement No.: AEFA-10/4/99-KF-1

Effective Date: October 15, 1999

This Master License Agreement ("Agreement") is made and entered into as of the Effective Date specified above between American Express Travel Related Services Company, Inc on behalf of, and for the benefit of itself, its parent, its parent's affiliates, and subsidiaries also known as American Express Company ("AMEXCO), having an office at American Express Tower, World Financial Center, New York, New York 10285 ("AMEXCO") and the Licensor specified above. This Agreement specifically applies to domestic AMEXCO locations only. It supersedes any shrink-wrap license that accompanies the media on which the software described herein is provided.

ARTICLE 1: PROVISION OF PROGRAMS

1.1 Under the provisions of this Agreement, Allstate Dataworks, LLC (USD) agrees to grant AMEXCO licenses to use certain of USD's proprietary computer programs and associated materials ("Products"). All products, support options, and, escrow agreements, and development work are listed substantially in the attached as the Exhibits below.

Exhibit A — Schedule
Exhibit B — Software Products Schedule
Exhibit C — Escrow Agreement

1.1.1 This Agreement also permits AMEXCO to obtain USD's services to customize, modify and/or enhance Products, to develop programs, software and materials related to Products, and/or such other services as the parties mutually agree upon ("Custom Services"). Custom Services shall be specified on a Statement of Work and will be attached as an applicable Schedule.

1.2 Each Schedule shall be numbered and dated to facilitate identification and when executed by both parties shall form a part of this Agreement. Each Schedule shall include: (i) the AMEXCO site where each Product is to be installed ("Installation Site"); (ii) the name and/or other description of each Product; (iii) the scheduled date each Product is to arrive at the Installation Site ("Scheduled Delivery Date"); (iv) the duration of each license ("License Term"); (v) the scope of each Product license, as defined in Article 5; (vi) the standard specifications applicable to each Product ("Specifications"); (vii) the charge for the license for each Product ("License Fee"); (viii) the maintenance charges for each Product, if any ("Maintenance Fee") and whether such Maintenance Fees are monthly, quarterly, annual or otherwise; and (ix) any other provisions the parties mutually agree upon.

1.2.1 In the event of any inconsistency between this Agreement and any Schedule, the provisions of such Schedule shall govern, for purposes of such Schedule.

1.3 AMEXCO, its parent, domestic subsidiaries and affiliated companies ("AMEXCO Entities") may execute Schedules with USD under this Agreement and for purposes of such Schedule shall be considered "AMEXCO" as that term is used throughout this Agreement.

ARTICLE 2: DELIVERY; INSTALLATION

2.1 USD shall deliver each Product to the Installation Site on or before its Scheduled Delivery Date. If any Product is not delivered within ten (10) days of its Scheduled Delivery Date, USD shall be notified and given an opportunity to cure. If after the parties mutually agree on a revised delivery date, USD fails to deliver the Product, AMEXCO may, on written notice any time thereafter, terminate the Schedule involved in whole or in part, without obligation, liability or penalty of any kind.

2.2 USD shall install each Product at the Installation Site as soon as possible after delivery. If any Product is not installed within twenty (20) days of its Scheduled Delivery Date, USD shall be notified and given an opportunity to cure. If after being notified, USD does not install the Product within the agreed upon time frame, AMEXCO may, on written notice any time thereafter, terminate the Schedule involved in whole or in part, without obligation, liability or penalty of any kind. Unless an installation charge is specified on the applicable Schedule, there shall be no charge to AMEXCO for USD's installation services.

ARTICLE 3: ACCEPTANCE

3.1 When each Product has been successfully installed at the Installation Site and has been made ready for use, USD shall notify AMEXCO and AMEXCO shall commence acceptance testing of such Product with such assistance and support as necessary from USD personnel. The acceptance test shall be conducted for the purpose of demonstrating that the Product performs in accordance with its Specifications, Documentation and any other criteria and procedures mutually agreed upon and set forth in the Schedule. AMEXCO shall provide sufficient resources to complete acceptance testing within a period of four (4) calendar weeks from the date of notification that the system is ready for use. The four weeks will begin at the time that the Product is mutually agreed upon and for any extensions, for the acceptance testing at the production facility. AMEXCO may choose to extend the acceptance testing period if corrections in the Product are needed.

3.2 Once the Product has successfully passed the acceptance test, AMEXCO shall notify USD in writing of acceptance of such Product. If a Product does not pass the acceptance test, AMEXCO shall notify USD, specifying in reasonable detail in what respects the Product has failed to perform. USD shall promptly correct any deficiencies disclosed by the acceptance test and AMEXCO shall repeat the entire test until the Product has successfully passed. If the Product fails to pass within sixty (60) days of the date the deficiency was detected, AMEXCO shall have the option of immediately terminating the Schedule involved in whole or in part, without obligation, liability or penalty of any kind, or

continuing the acceptance test; provided, however, that AMEXCO's termination option shall remain available to AMEXCO during any such continuation.

ARTICLE 4: DOCUMENTATION AND TRAINING

4.1 Upon delivery of each Product, USD shall deliver to AMEXCO one (1) copy of all generally available documentation for such Product sufficient to enable AMEXCO personnel to use and to fully understand the use and operations of the Product ("Documentation"). AMEXCO may copy the Documentation in order to satisfy its own internal requirements or may request USD to furnish additional copies at USD's current standard prices, less any applicable discounts.

4.2 If training is required and/or included for a Product, the charge, duration, nature and other particulars applicable to such training shall be specified on the Schedule.

4.3 USD shall maintain the Product, including Documentation, in at least the current and one prior version, in escrow with an independent third party ("Escrow Agent"). USD shall supply AMEXCO with a copy of its agreement with said Escrow Agent or such other form of Escrow Agreement as the parties may agree to be mutually acceptable. The attached Exhibit C is incorporated herein as though completely and originally recited herein.

ARTICLE 5: SCOPE OF LICENSE AND PROPRIETARY RIGHTS

5.1 USD grants to AMEXCO a non-exclusive, 10-year, U.S. License to use each Product, commencing upon its delivery to AMEXCO and continuing thereafter from the date of AMEXCO's acceptance of the Product, for the License Term specified on the Schedule, unless terminated earlier in accordance with this Agreement.

5.2 Each license hereunder shall be designated on the Schedule as one of the following:

5.2.1 A "CPU License" shall entitle AMEXCO to use the Product on the specific central processing unit ("CPU"), designated by model, type and/or serial number on the Schedule. If CPU Licenses hereunder are dependent on the size or type of CPU, then the legend "CPU License — Specific Size/Type Only" must appear on the applicable Schedule.

5.2.2 An "Installation Site License" shall entitle AMEXCO to use the Product on any and all equipment or devices at the Installation Site (including all buildings physically contiguous or directly connected or accessible to each other).

5.2.3 A "U.S. License" shall entitle AMEXCO to use the Product anywhere in the United States (including its possessions and territories) at any sites and on all CPUs owned, controlled or operated by or for the benefit of AMEXCO.

5.2.4 A "North American License" shall entitle AMEXCO to use the Product anywhere in the continental United States, at any sites and on all CPUs owned, controlled or operated by or for the benefit of AMEXCO.

5.2.5 A “Country License” or “Regional License” shall specify the country or countries comprising a region and shall entitle AMEXCO to use the Product anywhere at any sites and on all CPUs owned, controlled or operated by or for the benefit of AMEXCO within the country or region specified.

5.2.6 A “Worldwide License” shall entitle AMEXCO to use the Product anywhere in the world (unless specific countries are excluded by USD on the Schedule) at any sites and on all CPUs owned, controlled or operated by or for the benefit of AMEXCO.

5.2.7 Any other type or scope of license mutually agreed upon shall be specified and described on the Schedule.

5.3 All licenses shall include the right of AMEXCO to use the license for the benefit of AMEXCO and its domestic subsidiaries, affiliates, joint ventures or other parties to use the Product involved; provided, however, that such use is controlled, operated and/or conducted by or for the benefit of AMEXCO or conducted by another party authorized by AMEXCO to conduct all or any portion of AMEXCO’s businesses.

5.4 At any time, upon written notice to USD, AMEXCO may change the scope of its license for any Product, consistent with the categories described in Section 5.2 above or for such other scope as is mutually agreed upon (“Upgrade”). The charge or refund applicable to Upgrades, shall be the difference between the then current License Fee for the Product license currently held by AMEXCO and the modified license being obtained by AMEXCO as a result of the Upgrade, payable as specified in Section 8.1.1 (or, in the case of a refund, as a credit against the next payment due to USD).

5.4.1 If AMEXCO transfers a “CPU License — Specific Size/Type Only” to another CPU of a different size or type then it shall be treated as an Upgrade within the meaning of Section 5.4 above.

5.5 AMEXCO may transfer the license to use a Product from one CPU to another or from one domestic Installation Site to another without payment of any additional license fee or charge, so long as the use remains consistent with the scope of that Product’s license as specified in Section 5.2. Each license includes the right to access and use Products in connection with any associated or interconnected networks, peripherals, equipment and devices, unless otherwise specifically prohibited or limited in the Schedule.

5.6 Unless prohibited on the Schedule, AMEXCO may obtain additional licenses to use any Product licensed to AMEXCO hereunder (“Supplementary License”), by making a copy of the Product involved, together with any applicable Documentation and/or related materials. AMEXCO agrees to notify USD on a quarterly basis, of all copies made in the preceding quarter, together with the term and scope of license required and all Installation Site, CPU or other information applicable to such license and to pay for such licenses as specified in Section 7.1.1. Supplementary Licenses shall commence on the date the additional copy is made by AMEXCO.

5.7 Each license includes the right to use Products on temporary substitute or back-up equipment. AMEXCO shall also be entitled to make and keep copies of each Product and its Documentation at a separate facility for purposes of safekeeping and back-up.

5.8 USD retains title to the Products provided hereunder and does not convey any proprietary rights or other interest therein to AMEXCO, other than the licenses granted hereunder. USD agrees that AMEXCO shall have the right to enhance, modify and/or adapt any of the Products and/or materials provided to AMEXCO hereunder, may create and use derivative works and may use and combine Products with other programs and/or materials.

5.8.1 Notwithstanding anything to the contrary herein, and unless otherwise specified in the Schedule, AMEXCO shall have the exclusive right to use any enhancements, modifications, adaptations and derivative works made by or for AMEXCO or by USD specifically at AMEXCO's request or direction.

5.9 AMEXCO shall notify USD within sixty (60) days in writing if it opts to continue a Product license and License Term for any such continuation. The License Fee applicable to any continuation of a Product license ("Renewal Fee") shall be the lesser of: (a) the License Fee applicable to the current License Term (if the terms are equivalent); (b) USD's then current License Fee applicable to the renewal License Term; or (c) such other license fee as is mutually agreed upon by the parties. Notwithstanding anything herein to the contrary, License Terms shall continue at no additional charge to the end of the License Term or for sixty (60) days after receipt of USD's notice referred to above, whichever is later, and thereafter, if AMEXCO exercises the option to continue the license as provided hereunder.

ARTICLE 6: ESCROW MATERIALS

6.1 On or before delivery of the Product to Amexco, Licensor shall deliver to an independent third party escrow agent, selected and designated by Amexco and approved by Licensor (such approval not be unreasonably withheld) ("Escrow Agent"), for deposit in accordance with an escrow agreement among the Escrow Agent and the parties hereto and is substantially in the form attached as Exhibit C ("Escrow Agreement"), a current and complete copy of the Source Code and any other materials required by the terms of the Schedule to be deposited in escrow ("Escrow Materials").

6.2 Within five (5) days of the installation of any new Update, Product release (or any other substantial modification to the Product) or within six (6) months of the last deposit hereunder, whichever is sooner, Licensor shall deliver to the Escrow Agent, for deposit in accordance with such Escrow Agreement, any and all changes to the Escrow Materials which correspond to changes, if any, made to the corresponding Product or shall notify Escrow Agent that no changes were made during the preceding period. All materials deposited hereunder shall be considered "Escrow Materials" as the term is used herein.

6.3 In the event Licensor fails to maintain and/or support any Product in accordance with the provisions of this Agreement and such failure is not fully remedied within thirty

(30) days of Amexco's notice to Licensor, then notwithstanding any other rights and remedies to which Amexco may be entitled, Amexco shall immediately have the right to obtain a copy of the Escrow Materials from the Escrow Agent upon written notice as provided in the Escrow Agreement.

6.4 Any release of Escrow Materials to Amexco shall remain subject to the confidentiality obligations set forth in Section 11 hereof. Escrow Materials shall be utilized by Amexco for its maintenance and support requirements for the Product(s) and no other purpose whatsoever.

6.5 Amexco shall have the right, at any time upon at least ten (10) days' written notice to Licensor and Escrow Agent, to select and designate a new escrow agent to replace the Escrow Agent hereunder. Upon such notice, Escrow Agent shall completely, safely and securely transfer the Escrow Materials to the new escrow agent (which will then become the "Escrow Agent" hereunder) and confirm such transfer in writing to Amexco and Licensor.

ARTICLE 7: MAINTENANCE

7.1 During the Warranty Period specified in Section 8.4 at no charge, and thereafter in consideration of AMEXCO's payment of the applicable Maintenance Fee, USD agrees to provide AMEXCO with the services specified in this Article 7 as part of its maintenance and support services for Products licensed hereunder.

7.2 USD shall correct and repair Products, following telephonic, electronic or other notification by AMEXCO to USD of any failure, malfunction, defect or nonconformity which prevents the Product from performing in accordance with the warranties, Documentation, Specifications and other descriptions and/or materials provided to AMEXCO.

7.3 USD shall respond by telephone (or other confirmed means) to any request for service made during the hours from 8:00 A.M. to Midnight. (Installation Site local time), Monday through Friday, within one (1) hour of AMEXCO's initial request for service. If any failure, malfunction, defect or nonconformity cannot be satisfactorily corrected through telephone, electronic or other remote means, AMEXCO may request on-site assistance from USD and USD shall respond by having any necessary maintenance personnel, trained in the Product to be serviced, at the site where such Product is located within twenty four (24) hours of AMEXCO's initial request for service and apply continuous, dedicated efforts and resources until the problem is resolved. USD and AMEXCO may mutually agree to any other problem resolution activities appropriate to the situation in addition to, or instead of the above noted means.

7.4 USD shall provide AMEXCO with all revisions, updates, improvements, modifications and enhancements to each Product and to the Documentation described in Section 4.1. hereof, which are produced and generally made available by USD ("Update"). If any Update is acceptable to AMEXCO, AMEXCO shall allow USD to install same (or if "AMEXCO Installed", provide documentation and materials necessary to successfully install such Update) and provide such services as are required, if any, to enable AMEXCO to continue AMEXCO's intended use of the Product. If any such Update adversely affects

AMEXCO's use of the Product, AMEXCO's operations or other systems or processes, in AMEXCO's sole judgment, acting reasonably and in good faith, AMEXCO may refuse to accept same, and in such event, USD shall maintain the Product in the form in effect immediately prior to USD's request that AMEXCO accept such Update. If USD satisfactorily resolves the problems that gave rise to AMEXCO's refusal, AMEXCO shall permit USD to install the Update. For purposes of this Agreement, an Update once incorporated into any Product or Documentation shall be considered a part thereof for all purposes hereunder.

7.5 USD shall produce and make available to AMEXCO any and all modifications to the Products to enable same to operate in conjunction with any new releases of the applicable equipment's operating system.

7.6 USD shall provide reasonable remote technical assistance and consultation to AMEXCO at any time during normal working hours.

7.7 USD shall provide revised and/or updated Documentation to correspond to any changes (including Updates) made to the Products, within ten (10) days of such changes.

7.8 If AMEXCO attempts to perform maintenance and/or repair service on the Product and, as a result, further service is required to restore the Product to proper operating condition, such service shall be provided by USD hereunder; provided, however, that USD shall have the right to charge AMEXCO for such services at USD's then applicable time and materials rates.

7.9 AMEXCO may elect to extend the hours of maintenance coverage, arrange for on-site or other services available from USD and unless otherwise mutually agreed, USD shall provide such other services at its then current applicable prices.

7.10 AMEXCO may change the type of and nature of additional services elected hereunder or may terminate maintenance and support services for any Product licensed hereunder, at any time in whole or in part, upon thirty (30) days' written notice to USD.

ARTICLE 8 : INVOICING; PAYMENT; DISCOUNTS

8.1 USD may invoice AMEXCO for the License Fee of products set forth on the Schedule B for each Product upon successful installation of Products and the custom code upon successful acceptance testing, on or after execution of this agreement in accordance with Section 3.2 hereof. Subsequent License Fees for such Product, if applicable, shall be invoiced to AMEXCO monthly, quarterly, annually or otherwise, in advance, as specified on the Schedule.

8.1.1. License Fees applicable to Upgrades and/or Supplementary Licenses, may be invoiced immediately upon USD's receipt of AMEXCO's notification of Upgrade or Supplementary License as required hereunder.

8.1.2. Renewal Fees may be invoiced to AMEXCO at any time after AMEXCO's notice of renewal and shall be payable within thirty (30) days of its receipt or on the

effective date of the renewal, whichever is later. Once renewed, the Renewal Fee shall be read to mean “License Fee” for all purposes hereunder.

8.1.3 Custom coding, consulting, travel, and any other non license or maintenance expenses may be invoiced to AMEXCO on a monthly basis during the term of the development and installation process.

8.2 License Fees include the provision of maintenance and support services hereunder, unless a separate Maintenance Fee is indicated on the Schedule. If payment of the License Fees for any Product includes maintenance and support services, then all references to Maintenance Fees shall be deemed to refer to those License Fees. Maintenance Fees may be invoiced commencing upon expiration of the Warranty Period and monthly, quarterly, annually or otherwise, in advance thereafter, as specified on the Schedule.

8.3 Each invoice properly rendered in accordance with this Agreement, shall be payable within thirty (30) days after its receipt, unless otherwise specified herein.

8.4 Upon ninety (90) days’ written notice, USD may change the License Fees and/or Maintenance Fees applicable to any Product at any time effective after one (1) year from the date of expiration of the Warranty Period for such Product; provided, however, that increases hereunder shall not exceed five percent (5%) per year over the preceding year and provided further that in no event shall any fees or charges hereunder exceed USD’s then current standard published charges.

8.5 AMEXCO shall be entitled to discounts on License Fees and Maintenance Fees hereunder based on the Products licensed and/or maintenance services provided to all the AMEXCO Entities hereunder, or such other discounts as may be available from USD, calculated at the time the Schedule for such Product is entered into by the parties.

ARTICLE 9: WARRANTIES

9.1 USD warrants to AMEXCO that: (i) USD has the right to furnish the Products, Documentation, Specifications and other materials and perform the services as specified in this Agreement (“Product Materials and Services”) covered hereunder free of all liens, claims, encumbrances and other restrictions; (ii) the Product Materials and Services furnished by USD and/or AMEXCO’s use of the same hereunder do not violate or infringe the rights of any third party or the laws or regulations of any governmental or judicial authority; (iii) AMEXCO shall be entitled to use and enjoy the benefit of the Product Materials and Services, subject to and in accordance with this Agreement; and (iv) AMEXCO’s use and possession of the Product Materials and Services hereunder, shall not be adversely affected, interrupted or disturbed by USD or any entity asserting a claim under or through USD.

9.2 USD warrants that: (i) all tangible portions of the Product Materials and Services shall be free from any defects in materials and workmanship and the Products shall conform to and operate in accordance with the Specifications for such Products, the Documentation provided to AMEXCO by USD hereunder and such other descriptions and materials as are

attached, described and/or provided under this Agreement; and (ii) the Specifications and Documentation and other materials provided by USD hereunder shall faithfully and accurately reflect the Products provided to AMEXCO hereunder.

9.3 USD warrants that the Product will materially comply with USDA's then current published specifications. AMEXCO shall notify USD in writing, within sixty (60) days after the date of this Agreement, of its claim of any violation of foregoing warranty, in sufficient detail to identify each claimed instance of noncompliance and enable USD to reproduce it. AMEXCO's sole and essential remedy is that USD shall use reasonable efforts to remedy each such properly reported instance of noncompliance in a manner consistent with USD's regular business practices. If USD cannot remedy any material noncompliance within a reasonable time despite such efforts, then AMEXCO at its option may return the Product owned or made for AMEXCO for a refund.

9.4 USD does not warrant that the Product will operate uninterrupted or that it will be free from minor defects or errors that do not materially affect performance. USD will not be assume liability for business expenses, machine downtime or any type of damages caused by a defect, deficiency, error or malfunction in the Product.

9.5 USD warrants that: the Products have been tested and are fully capable of providing accurate results using data having date ranges spanning the twentieth (20 th) and twenty first (21 st) centuries (e.g., years 1980-2100). Without limiting the generality of the foregoing, USD warrants that all software licensed from USD shall (a) manage and manipulate data involving all dates from the 20th and 21 st centuries without functional or data abnormality related to such dates; (b) manage and manipulate data involving all dates from the 20 th and 21 st centuries without inaccurate results related to such dates; (c) have user interfaces and data fields formatted to distinguish between dates from the 20 th and 21 st centuries; and (d) represent all data related to include indications of the millennium, century, and decade as well as the actual year. This warranty shall not apply to Software and Documentation that has been modified or altered by AMEXCO. USD does not warrant that Software will accommodate all dates in the year 2000 if Software is used with any hardware or computer software that is not compliant with the year 2000 requirements.

9.6 USD warrants that for a period of one (1) year (or such other period as is specified on the Schedule) after AMEXCO has notified USD of its acceptance of the Product pursuant to Section 3.2 ("Warranty Period") it shall correct and repair any malfunction, defect or nonconformity which prevents such Product from performing in accordance with the provisions of this Agreement at no additional charge to AMEXCO.

9.7 USD warrants that, upon the expiration of the Warranty Period, and in consideration of the applicable Maintenance Fees hereunder, it shall perform the maintenance and support services as specified in this Agreement.

9.8 USD warrants to AMEXCO that Updates to the Products provided to AMEXCO hereunder shall not degrade, impair or otherwise adversely affect the performance or operation of the Products provided hereunder.

9.9 USD warrants that any installation, maintenance or other services provided by USD hereunder shall be performed in a high quality, professional manner by qualified personnel. USD personnel will observe and comply with AMEXCO's security procedures, rules, regulations, policies, working hours and holiday schedules. In performing services at AMEXCO locations, USD personnel will use best efforts to minimize any disruption to AMEXCO's normal business operations.

9.10 EXCEPT AS SPECIFICALLY PROVIDED IN THIS AGREEMENT, THERE ARE NO OTHER WARRANTIES, EXPRESSED OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

ARTICLE 10: INTELLECTUAL PROPERTY INFRINGEMENT

10.1 USD agrees to defend and/or handle at its own expense, any claim or action against any AMEXCO Entity for actual or alleged infringement of any intellectual or industrial property right, including, without limitation, trademarks, service marks, patents, copyrights, misappropriation of trade secrets or any similar proprietary rights, based upon the Product Materials and Services furnished hereunder by USD or based on AMEXCO's use thereof, provided that AMEXCO uses the Product in compliance with the Contract. USD further agrees to indemnify and hold AMEXCO harmless from and against any and all liabilities, losses, costs, damages and expenses (including reasonable attorneys' fees) associated with any such claim or action. USD shall have the sole right to conduct the defense of any such claim or action and all negotiations for its settlement or compromise, unless otherwise mutually agreed to in writing.

10.2 If any Product Materials and/or Services become, or in USD's opinion are likely to become, the subject of any such claim or action, then, USD, at its expense may either: (i) procure for AMEXCO the right to continue using same as contemplated hereunder; (ii) modify same to render same non-infringing (provided such modification does not adversely affect AMEXCO's use as contemplated hereunder); or (iii) replace same with equally suitable, functionally equivalent, compatible, non-infringing products, materials and/or services. If none of the foregoing are commercially practicable, USD having used all reasonable efforts, then AMEXCO shall have the right to terminate the Schedule(s) involved and shall be entitled to a pro-rata refund of all payments made in respect of such Product (calculated on a straight-line five (5) year basis unless a shorter License Term applies).

ARTICLE 11: CONFIDENTIAL INFORMATION

11.1 USD agrees to regard and preserve as confidential all information related to the business and activities of AMEXCO and the AMEXCO Entities, their customers, clients, suppliers and other entities with whom AMEXCO and the AMEXCO Entities do business, that may be obtained by USD from any source or may be developed as a result of this Agreement. USD agrees to hold such information in trust and confidence for AMEXCO and not to disclose such information to any person, firm or enterprise, or use (directly or indirectly) any such information for its own benefit or the benefit of any other party, unless

authorized by AMEXCO in writing, and even then, to limit access to and disclosure of such confidential information to USD's employees on a "need to know" basis only.

11.2 AMEXCO acknowledges that USD considers any materials labeled "Confidential" at the time of their delivery to AMEXCO, to be confidential and trade secrets of USD and AMEXCO agrees that unless AMEXCO has obtained USD's written consent, AMEXCO shall keep such "Confidential" materials confidential and prevent their disclosure to any person other than employees or representatives of AMEXCO and the AMEXCO Entities, employees or representatives of USD, or other persons on AMEXCO's premises for purposes specifically related to AMEXCO's permitted use of the Products.

11.3 Information shall not be considered confidential to the extent, but only to the extent, that such information is: (i) already known to the receiving party free of any restriction at the time it is obtained from the other party; (ii) subsequently learned from an independent third party free of any restriction and without breach of this Agreement; (iii) is or becomes publicly available through no wrongful act of either party; (iv) is independently developed by one party without reference to any Confidential Information of the other; or (v) required to be disclosed pursuant to a requirement of a governmental agency or law so long as the parties provide each other with timely written prior notice of such requirements.

ARTICLE 12: GENERAL

TERM AND TERMINATION: This Agreement shall commence as of the Effective Date and continue thereafter unless terminated as provided hereunder. Each Schedule shall become binding when duly executed by both parties and shall continue thereafter unless terminated as permitted hereunder. Notice of termination of any Schedule shall not be considered notice of termination of this Agreement.

DUTIES UPON TERMINATION: Upon termination of this Agreement because of AMEXCO's default, AMEXCO shall immediately return Software and Documentation to USD, including, but not limited to, all discs, tapes, documentation or other physical embodiments of the Software and Documentation, and shall certify to USD that it has not retained any copies of the Software and that it acknowledges that it may no longer use Software or Documentation. The data with respect to AMEXCO customers shall remain the property of and may be retained by AMEXCO.

TAXES: AMEXCO agrees to pay all taxes levied against or upon the Products and any services or their use hereunder, exclusive, however, of taxes based on USD's income, which taxes shall be paid by USD. If any tax for which AMEXCO is responsible hereunder is paid by USD, AMEXCO will reimburse USD upon AMEXCO's receipt of proof of payment.

LIABILITY: In no event shall either party be liable, one to the other, for any indirect, special or consequential damages arising out of or in connection with this Agreement.

EXCUSABLE DELAYS: In no event shall either party be liable to the other for any delay or failure to perform due to causes beyond the control and without the fault or negligence of the party claiming excusable delay, including but not limited to, acts of God, war, riot,

embargoes, acts of civil or military authorities, fire, floods, earthquakes, accidents, strikes or shortages of transportation.

MATERIAL BREACH: In the event of any material breach (failure, without legal excuse, to perform any promise which forms the whole or part of the Agreement) of this Agreement by one party, the other party may (reserving cumulatively all other remedies and rights under this Agreement and in law and in equity) terminate the Schedule(s) involved, in whole or in part, by giving thirty (30) days' written notice thereof; provided, however, that any such termination shall not be effective if the party in breach has cured the breach of which it has been notified prior to the expiration of said thirty (30) days.

CONTINUATION OF LICENSE: In the event of any termination by AMEXCO in accordance with the Material Breach provision above, AMEXCO shall, effective as of the date of such termination, have a perpetual license to use the Product, Documentation and any other items provided hereunder without further fee, but otherwise subject to and in accordance with the provisions of this Agreement. Upon termination of this agreement, based on the material breech provision above, AMEXCO shall have the right to exercise the clause in the Software Escrow Agreement releasing all source code and documentation for their sole and exclusive use.

DISCONTINUATION OF LICENSE: In the event that USD becomes unable or unwilling to continue to support the Product at the end of the original License term, USD shall notify AMEXCO by giving one hundred twenty (120) days' written notice thereof. Upon receipt of this notice, AMEXCO shall have the right to exercise the clause in the Software Escrow Agreement releasing all source code and documentation for their sole and exclusive use.

NOTICES: Unless otherwise specified all notices shall be in writing and delivered personally or mailed, first class mail, postage prepaid, to the addresses of the parties set forth at the beginning of this Agreement, to the attention of the undersigned; provided, however, that a copy of any USD notice of material breach to AMEXCO shall also be sent to the Office of the General Counsel, World Financial Center, American Express Tower, 200 Vesey Street, 49th floor, New York, New York 10285-4900. As to any Schedule, notices shall also be sent to the signatories of the Schedule involved. Either party may change the address(es) or addressee(s) for notice hereunder upon written notice to the other. All notices shall be deemed given on the date delivered or when placed in the mail as specified herein.

ADVERTISING OR PUBLICITY: Neither party shall use the name or marks, refer to or identify the other party in advertising or publicity releases, promotional or marketing correspondence to others without first securing the written consent of such other party.

ASSIGNMENT: Neither party may assign this Agreement, any Schedule and/or any rights and/or obligations hereunder without the written consent of the other party and any such attempted assignment shall be void; provided, however, that AMEXCO may assign this Agreement, any Schedule and/or any of its rights and/or obligations hereunder to any AMEXCO Entity (AMEXCO itself, its parent, its parent's affiliates, or subsidiaries) upon written notice to USD without the consent of USD.

GOVERNING LAW: In all respects this Agreement shall be governed by the substantive laws of the State of New York without regard to conflict of law principles.

MODIFICATION, AMENDMENT, SUPPLEMENT AND WAIVER: No modification, course of conduct, amendment, supplement to or waiver of this Agreement, any Schedule, or any provisions hereof shall be binding upon the parties unless made in writing and duly signed by both parties. At no time shall any failure or delay by either party in enforcing any provisions, exercising any option, or requiring performance of any provisions, be construed to be a waiver of same.

HEADINGS: Headings are for reference and shall not affect the meaning of any of the Provisions of this Agreement.

SEVERABILITY. In the event that any provision hereof is found invalid, illegal or unenforceable pursuant to judicial decree or decision or newly created state or federal law, the remainder of this Agreement shall remain valid and enforceable according to its terms. WITHOUT LIMITING THE FOREGOING, IT IS EXPRESSLY UNDERSTOOD AND AGREED THAT EACH AND EVERY PROVISION OF THIS AGREEMENT THAT PROVIDES FOR A LIMITATION OF LIABILITY, DISCLAIMER OF WARRANTIES OR EXCLUSION OF DAMAGES IS INTENDED BY THE PARTIES TO BE SEVERABLE AND INDEPENDENT OF ANY OTHER PROVISION AND TO BE ENFORCED AS SUCH. FURTHER, IT IS EXPRESSLY UNDERSTOOD AND AGREED THAT IN THE EVENT ANY REMEDY HEREUNDER IS DETERMINED TO HAVE FAILED OF ITS ESSENTIAL PURPOSE, ALL OTHER LIMITATIONS OF LIABILITY AND EXCLUSION OF DAMAGES SET FORTH HEREIN SHALL REMAIN IN FULL FORCE AND EFFECT. USD

MODIFICATION, AMENDMENT, SUPPLEMENT AND WAIVER. No modification, course of conduct, amendment, supplement to or waiver of this Agreement, any Schedule, or any provisions hereof shall be binding upon the parties unless made in writing and duly signed by both parties. At no time shall any failure or delay by either party in enforcing any provisions, exercising any option, or requiring performance of any provisions, be construed to be a waiver of same.

DISPUTE RESOLUTION.

Except for the right of either party to apply to a court of competent jurisdiction for a Temporary Restraining Order, a Preliminary Injunction or other equitable relief to preserve the status quo or prevent irreparable harm pending the selection and the confirmation of the arbitrator(s), any controversy or claim arising out of, relating to, or connected with this Agreement, or breach thereof, shall be settled by binding arbitration in accordance with Commercial Arbitration Rules of the American Arbitration Association, and judgement upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. The arbitration panel shall be comprised of three arbitrators, each with a minimum of eight years experience in the computer and financial service industry. Each party shall select an arbitrator to serve on the panel. These two arbitrators shall then select a their arbitrator to complete the panel. Such arbitrators shall be bound to the terms of this Agreement, and, for example, any final arbitration award shall not exceed the limitation of liability provisions

of this Agreement. Any arbitration under this Agreement shall be administered exclusively by the closest available Regional Office of the American Arbitration to New York, New York. All proceedings in any arbitration shall be conducted in the English language.

ENTIRE AGREEMENT: The Exhibits, Schedules and attachments to this Agreement are incorporated by this reference and shall constitute part of this Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all previous agreements, promises, proposals, representations, understandings and negotiations, whether written or oral, between the parties respecting the subject matter hereof.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day, month and year first written above.

USD (Licensor)	AMERICAN EXPRESS TRAVEL RELATED SERVICES COMPANY, INC. (Licensee)
By: /s/ Terry E. Stepanik	By: /s/ Maryann Ray
Name: Terry E. Stepanik (Print, Stamp or Type)	Name: Maryann Ray (Print, Stamp or Type)
Title: General Manager	Title: Vice President
Date: 10/6/99	Date: 12/2/99

EXHIBIT A

Schedule Number: _____Dated: _____
to
Agreement Number: _____

This Schedule is issued pursuant to the above-referenced Master License Agreement (the "Agreement"), between [AMEXCO Entity that signed the Agreement.] and the Licensor specified below. Any term not otherwise defined herein shall have the meaning specified in the Agreement.

Installation Site

Scheduled Delivery Date

Products

Scope

License Fee

License Term

Maintenance Fee
Paid: (initial one)__annually___quarterly___monthly ___other

Service Attachment (if applicable attached hereto as Appendix A):

Source Code in Escrow: ___Yes ___No
(If "Yes" then see additional provisions attached hereto as Appendix B)

*Identify CPU if applicable:

Specifications: See attached Annex 1 to this Schedule

Acceptance Test Criteria and Procedures: See attached Annex 2 to this Schedule

Additional Provisions and Conditions (if any):

Licensor	[AMEXCO Entity signing the Schedule.]
By: _____	By: _____
Name: _____ (Type or Print)	By: _____ (Type or Print)
Title: _____	Title: _____
Date: _____	Date: _____

EXHIBIT B

SOFTWARE PRODUCTS SCHEDULE

Schedule Number: 1 to Master License Agreement Number: AEFA-10/4799-KF-1

This Schedule is issued pursuant to the above-referenced Master License Agreement (the "Agreement"), between American Express Travel Related Services Company, Inc. USD. Any term not otherwise defined herein shall have the meaning specified in the Agreement.

Installation Site; Chicago, IL (production location) and Westin, FL (small test site)

Scheduled Delivery Date; Westin by 10/31/99 and Chicago by 5/1/00

Products; See Exhibits 1 and 2 in the Statement of Work

Scope: Domestic United States

License Fee $65,000 for Returnworks and $10,000 for RCKworks

Custom coding and consulting services billed at USD standard charge of $1,000/day per hour plus expenses as defined by the AMEXCO expense policy. Licenses are also required for Thomson Financial Publishing's "EPICWare" and "Base+ACH" ($19,275) and Crystal Reports ($395). Additional requirements are:

Returnworks Client Software

Description / Per Client	Qty	Unit Price	Total
Windows NT Workstation 4.0 (already purchased by AMEXCO)	7	$ 0.00	$ 0.00
Crystal Report Professional version 7.0 (Optional for Ad hoc reporting)	1	$ 321.00	$ 321.00
			$ 321.50

Returnworks Server Software

Description	Qty	Unit Price	Total
SQL Server 7.0 (already purchased by AMEXCO)	1	$ 0.00	$ 0.00
SQL Server 7.0 Media	1	13.00	13.00
SQL Server 7.0 Documentation	1	89.00	89.00
Veritas Backup v7.3 for SQL Server 7.0	1	445.00	445.00
Veritas Backup v7.3 for Windows NT 4.0	1	511.00	511.00
Microsoft Windows NT Server 4.0 with Windows NT Option and Service Pack	1	$809.00	$ 809.00
			$1,867.00

License Term 10 years

Maintenance Fee 17%

Paid: (initial one) ☑ annually ☐ quarterly ☐ monthly ☐ other

Service Attachment:

Source Code in Escrow: ☑ Yes ☐ No

See additional provisions attached hereto as:
*Identify CPU if applicable:

Specifications: **To be included in the Statement of Work**

Acceptance Test Criteria and Procedures: To be developed by TRS Technologies and will test all functionality and stress test the equipment.

Additional Provisions and Conditions (if any): **TBD**

USD	AMEXCO
By: /s/ Terry E. Stepanik	By: /s/ Maryann Ray
Name: Terry E. Stepanik (Print, Stamp or Type)	Name: Maryann Ray (Print, Stamp or Type)
Title: General Manager	Title: Vice President
Date: 10/6/99	Date: 12/2/99

Confidential and proprietary information of the American Express Travel Related Services Company, Inc.

EXHIBIT C

ESCROW AGREEMENT

Effective Date:

License Agreement: IDS-97-1

Licensor: Integrated Decision Systems, Inc.

Licensee: American Express Financial Corporation ("Amex")

Escrow Agent: Data Securities International, Inc. (referred to as "Escrow Agent") 9555 Chesapeake Drive, Suite 200, San Diego, CA 92123.

This Escrow Agreement ("Agreement") is made and entered into as of the Effective Date set forth above, by and among the Licensor identified by name above (referred to in this Agreement as the "Depositor"), the Amex Entity identified as the Licensee above ("Amex") and the escrow agent whose name and address is set forth above ("Escrow Agent").

Depositor and Amex have entered into the above-referenced License Agreement, ("License Agreement"), with attached Schedule(s), under which Amex has licensed certain Products from Depositor. The License Agreement further provides for the escrow of materials relating to the Products on the Schedule ("Escrow Materials") and this Agreement is entered into for the purpose of effectuating such an escrow arrangement in connection with the Schedule and Products identified therein. Depositor and Amex acknowledge that Escrow Agent has no knowledge of the terms and conditions contained in the License Agreement and that Escrow Agent's only obligations shall be set forth herein or in any other writing signed by Depositor, Amex and Escrow Agent.

ARTICLE 1: Deposit of Escrow Materials: Recordkeeping

1.1 On or before delivery of each Product to Amex, or as otherwise mutually agreed, Depositor shall deliver to the Escrow Agent, for deposit under this Agreement, a fully commented and documented copy of the source code for such Product, a listing thereof and all relevant documentation, including, but not limited to, all explanation, flow charts, algorithms and subroutine descriptions, memory and overlay maps, and any other materials required by the terms of the Schedule to be deposited in escrow (collectively, "Escrow Materials"). A specific description of the basic Escrow Materials required is set forth on the attached Exhibit A, which is incorporated and made a part of this Agreement.

1.2 Within five (5) days of the installation of any major Update, Product release (or any other material or substantial modification to the Product) or within three (3) months of the last deposit hereunder, whichever is sooner, Depositor shall deliver to the Escrow Agent, for deposit in accordance with this Agreement, any and all changes to the Escrow Materials which correspond to changes, if any, made to the Product licensed under the License Agreement or shall notify Escrow Agent that no changes were made during the preceding period. All materials deposited hereunder shall be considered "Escrow Materials" as the term is used herein and shall be deposited using the form attached hereto as Exhibit B.

1.3 The Escrow Materials may be removed and/or exchanged only on written instructions signed by Depositor and Amex, or as otherwise provided in this Agreement.

ARTICLE 2: Location of Escrow Materials

2.1 The Escrow Materials shall be administered by Escrow Agent from the location specified on Exhibit B and shall not be moved to any other location without the express written consent of Amex. Escrow Agent shall notify Depositor in writing of any change in location.

2.2 Amex shall have the right, at any time upon at least ten (10) days' written notice to Depositor and Escrow Agent, to select and designate a new escrow agent to replace the Escrow Agent hereunder. Upon such notice and upon payment of any outstanding fees due Escrow Agent, Escrow Agent shall completely, safely and securely transfer the Escrow Materials to the new escrow agent (which will then become the "Escrow Agent" hereunder) and confirm such transfer in writing to Amex and Depositor.

ARTICLE 3: Verification of Escrow Materials

3.1 When Escrow Agent receives the Escrow Materials accompanied by Exhibit A attached hereto, Escrow Agent will conduct a deposit inspection by visually matching the labeling of the tangible media containing the Escrow Materials to the item descriptions and quantity listed on Exhibit B.

3.2 Escrow Agent is entitled to be paid its standard fees and expenses applicable to the services provided. Escrow Agent shall notify the party responsible for payment of Escrow Agent's fees at

least ninety (90) days prior to any increase in fees. For any services not listed on Escrow Agent's standard fee schedule attached hereto as Exhibit E, Escrow Agent will provide a quote prior to rendering the service, if requested.

3.2.1 Escrow Agent shall not be required to perform any services unless the payment for such services and any outstanding balances owed to Escrow Agent are paid in full. All other fees are due payable within thirty (30) days of receipt of invoice. If invoiced fees are not paid, Escrow Agent may terminate this Agreement; provided, however, that any non-payment of fees is remedied in accordance with the Material Breach provisions herein. If there is a discrepancy in fees owed to Escrow Agent, then the party responsible for payment and Escrow Agent shall agree to discuss this matter on a good faith basis.

3.3 In addition and upon Amex's request, Escrow Agent shall be authorized to perform any additional verification services which are available from Escrow Agent from time to time specified on the attached Exhibit D. including, without limitation, services necessary to verify the completeness, accuracy and functionality of the Escrow Materials and to ensure that the Escrow Materials conform and correspond to the Product furnished to Amex under the License Agreement.

3.3.1 Upon request, Escrow Agent will furnish Amex with a current copy of the charges for additional verification services that are available from Escrow Agent hereunder. Amex shall be responsible for payment of any such charges directly to Escrow Agent and Depositor shall have no responsibility for same.

3.4 Escrow Agent shall report to Amex in writing the results of all verification services performed on Escrow Materials upon completion of same and shall send a copy to Depositor.

ARTICLE 4: Release and Return of Escrow Materials

4.1 Within ten (10) business days of the Escrow Agent receiving written notice from Licensee sent by registered or certified mail, return receipt requested, with a copy to Depositor, requesting the release of the Escrow Materials hereunder, Escrow Agent shall release and deliver a copy of the Escrow Materials to Licensee.

4.1.1 Release Conditions — The Agent shall release the Deposited Escrow Materials in the event any one of the following release conditions occur:

a) If Depositor has availed itself of, or been subjected to by any third party, a proceeding in bankruptcy in which Depositor is the named debtor, an assignment by Depositor, or any other proceeding involving insolvency or the protection of, or from creditors, and same has not been discharged or terminated without any prejudice to Licensee's rights or interests under the License Agreement within thirty (30) days; or

b) if Depositor has ceased its on-going business operations, or sale, licensing, maintenance or other support of the Product; or

c) if any other event or circumstance occurs which demonstrates with reasonable certainty the inability or unwillingness of Licensor to fulfill its obligations to Amex under the License Agreement, this Escrow Agreement, or any software maintenance agreement between the parties, including, without limitation, the correction of defects in the Product.

4.2 Escrow Agent shall be entitled to act in reliance upon any Amex instructions, instrument, or signature reasonably believed to be genuine and shall assume that any Amex officer giving any written notice or instruction, which is consistent with this Agreement, has been duly authorized to do so on behalf of Amex. Similarly, Escrow Agent shall have no duty to inquire as to whether Amex or Depositor is in compliance with the provisions of the License Agreement relating to the release of Escrow Materials and shall have no liability to Depositor or Amex for relying on Amex's notice.

4.3 If the Schedule between Amex and Depositor has expired, been terminated or cancelled and if Amex has not notified Escrow Agent to release the Escrow Materials hereunder as contemplated under Section 4.1 above, then Escrow Agent may return or destroy the Escrow Materials at the request of Depositor; provided, however, that Escrow Agent shall not return or destroy any such Escrow Materials unless Escrow Agent has received written certification from Amex that no event or condition has occurred which would permit Amex to obtain the release and delivery of such Escrow Materials under this Agreement. Notwithstanding the foregoing, if Amex has not provided said written certification within thirty (30) days from Escrow Agent's notice of termination, then at Escrow Agent's option, Escrow Agent may return or destroy the Escrow Materials.

4.4 Each party shall designate an authorized individual as a contact for the purposes set forth hereunder and individuals shall be specified on the attached Exhibit C.

ARTICLE 5: Confidentiality of Escrow Materials

5.1 Escrow Agent acknowledges that Depositor considers the Escrow Materials to be confidential and trade secrets of Depositor, and Escrow Agent agrees that unless Escrow Agent has obtained Depositor's written consent, Escrow Agent shall keep the Escrow Materials confidential and prevent their disclosure to any person, firm or enterprise other than to employees or representatives of Escrow Agent involved in the performance of Escrow Agent's obligations under this Agreement, to employees and representatives of Depositor, and to Amex under the specific release provisions specified in this Agreement.

5.2 Escrow Agent may copy Escrow Materials to the extent necessary to preserve and safely store the Escrow Materials, to perform the verification services required and permitted under this Agreement, and to provide copies to Amex as and when permitted hereunder. On all such copies,

Escrow Agent shall reproduce any proprietary rights and/or confidentiality notices which were on the Escrow Materials at the time of their deposit with Escrow Agent.

ARTICLE 6: General

Payment: Escrow Agent may invoice Amex for all fees and/or charges applicable hereunder and Amex agrees to pay each invoice properly rendered hereunder within thirty (30) days after its receipt.

Liability: Escrow Agent shall be responsible to perform its obligations under this Agreement and to act in a reasonable and prudent manner in accordance with the terms and conditions of this Agreement. Provided Escrow Agent has acted in the manner set forth in the preceding sentence, Amex and Depositor each agree to indemnify, defend and hold harmless Escrow Agent from and against any and all claims, actions, damages, arbitration fees (if any), expenses costs, attorney's fees, and other liabilities incurred by Escrow Agent relating in any way to this Agreement. Except for the indemnity, none of the parties hereunder shall be liable, to any other party, for any indirect, special or consequential damages arising out of or in connection with this Agreement.

Termination. Upon the release, return, destruction or transfer of the Escrow Materials as permitted hereunder or upon termination due to a material breach, all further obligations and/or rights of Escrow Agent under this Agreement shall terminate; provided, however Escrow Agent is not the party in breach.

Material Breach: In the event of any material breach of this Agreement by one party, the other parties may (reserving cumulatively all other remedies and rights under this Agreement and in law and in equity) terminate this Agreement, by giving thirty (30) days' written notice thereof, provided, however, that any such termination shall not be effective if the party in breach has cured the breach of which it has been notified prior to the expiration of said thirty (30) days.

Notices: Except as otherwise specifically provided, all notices shall be in writing and delivered personally or mailed to the addresses of the parties set forth at the beginning of this Agreement, to the attention of the undersigned at the address (es) set forth at the beginning of this Agreement or to such other address or addressee as any party may designate by written notice and in the case of Amex, to the Office of the General Counsel, American Express Travel Related Services Company, Inc., American Express Tower, World Financial Center, New York, New York 10285-4900. Notices shall be deemed given when delivered or when placed in the mail as specified herein.

Bankruptcy: Amex, Depositor and Escrow Agent acknowledge that this Escrow Agreement is an "agreement supplementary to" the License Agreement as provided in Section 365(n), Title 11 of the United States Code ("Bankruptcy Code"). If Depositor, as a debtor in possession, or a trustee in bankruptcy appointed pursuant to the Bankruptcy Code, rejects the License Agreement or this Agreement, then subject to any other rights Amex may have, Amex may elect to retain its rights under the License Agreement and this Agreement as provided in the current Bankruptcy Code or any amendments and/or successor statutes. Unless earlier notified by Amex, Depositor and Escrow Agent, individually and collectively, agree that unless they have received notice from Amex that it does not wish to make such election or exercise any such rights, neither Escrow

Agent nor Depositor shall interfere with the rights of Amex in the License Agreement and/or this Agreement.

Assignment: The parties may not assign this Agreement or any of their rights and obligations hereunder without the written consent of each of the other parties involved in this Agreement and any such attempted assignment shall be void; provided however, that Amex may require the transfer of Escrow Materials to a new escrow agent (as permitted hereunder) and/or may assign this Agreement and/or any of its rights and/or obligations hereunder upon written notice to Depositor and Escrow Agent, to its parent company, its subsidiaries or affiliated companies without the consent of Depositor or Escrow Agent.

Severability: In the event any provisions of this Agreement are held to be invalid, illegal or unenforceable, the remaining provisions of this Agreement shall be unimpaired.

Governing Law: In all respects this Agreement shall be governed by the substantive laws of the State of New York without regard to conflict of law principles.

Modification/Amendments: No modification, amendment, supplement to or waiver of this Agreement or any of its provisions, whether by conduct or otherwise, shall be binding unless made in writing and duly signed by the parties. A failure or delay, by any party at any time, to enforce any of the provisions, or to exercise any option, or to require performance, shall in no way be construed to be a waiver or modification of this Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement on the dates indicated below.

AMERICAN EXPRESS FINANCIAL CORP.

By: _____

Name: _____
(Type or Print)

Title: _____

Date: _____

DATA SECURITIES INTERNATIONAL, INC.

By: _____

Name: _____
(Type or Print)

Title: _____

DEPOSITOR

By: /s/ Terry E. Stepanik

Name: Terry E. Stepanik
(Type or Print)

Title: General Manager

Date: 10/6/99

Date: _____

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Charles E. Ramey, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of US Dataworks, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report based on such evaluation;

   c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2007

/s/ Charles E. Ramey
Charles E. Ramey,
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John T. McLaughin, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of US Dataworks, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report based on such evaluation;

   c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2007

/s/ John T. McLaughlin
John T. McLaughlin,
Chief Accounting Officer

EXHIBIT 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. § 1350)

I, Charles E. Ramey, of US Dataworks, Inc. certify pursuant to section 906 of the Sarbanes-Oxley Act of 2002 that:

(i) the Quarterly Report on Form 10-QSB for the period ended December 31, 2006 (the "Report"), which this statement accompanies fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of US Dataworks, Inc.

Dated: February 14, 2007

/s/ Charles E. Ramey
Charles E. Ramey
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. § 1350)

I, John T. McLaughlin, of US Dataworks, Inc. certify pursuant to section 906 of the Sarbanes-Oxley Act of 2002 that:

(i) the Quarterly Report on Form 10-QSB for the period ended December 31, 2006 (the "Report"), which this statement accompanies fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of US Dataworks, Inc.

Dated: February 14, 2007

/s/ John T. McLaughlin
John T. McLaughlin
Chief Accounting Officer