we go farther.

CheckFree Corporation

2000 annual_report

you get closer.

@

ction. It's what the Web lets you experience that this printed page can't. Movement. Interactivity. Immediacy. Connection. More like real life.

And real life is exactly what electronic billing and payment is about.

At-your-fingertips action that's closer to your busy life – more timely, more personal and more convenient.

We're taking the action of Web technology farther than ever, so our customers can get closer to the consumer – harnessing the power

www.thewaytopayforanythingontheweb.com

now experience it.

of the Web to provide the security, convenience and individualized online experience you expect.

We could craft a lot of words and print volumes of brochures to tell you about the power of e-billing and payment. But instead of just reading about it, we'd like you to take one step farther – to the Web – and experience it for yourself.

Just go to *www.thewaytopayforanythingontheweb.com*. We think you'll see how far we're going to get closer to what really matters in electronic billing and payment.

CheckFree. We go farther. You get closer.

we go farther

shareholders: > letter from the chairman

Fellow shareholders:

As CheckFree begins its third decade transforming the landscape of financial electronic commerce, one constant rings as loud and clear today as it did in 1981– our commitment to push technology farther and bring financial convenience closer to the lives of "Main Street" consumers. We began the company with a vision of eliminating paper from financial transactions. Who could have predicted the degree to which electronic commerce would become completely integrated into everyday life as exists today?

The action in our industry – the whole *point* of our industry – centers on the richness and immediacy of the online experience. In fact, an annual report like this can never fully convey the vibrant, connected encounter you can have on the Internet.

We'd like to show you what can't be experienced through the words and pictures of a glossy brochure. The dynamic experience of electronic billing and payment can only be experienced right on the Web. When you finish reading this annual report, go to *www.thewaytopayforanythingontheweb.com* and you'll see firsthand how we and our partners – billers, financial institutions, Internet portals, technology companies and others – are working together to take this industry farther and bring you closer. Closer to the companies you buy from…closer to the financial institutions that protect your money…closer to the places on the Web that organize the content you want to see…closer to things you want to control.

You'll understand why we are so confident that "Main Street" consumers will prefer to pay anyone, for anything, anywhere, anytime on the Web – and never go back to paper checks, bills, and statements again.

Execution to Main Street Momentum

"Main Street" describes the typical person who is reasonably cautious about trying new ways of doing things. Reliable, trusted, scalable systems and processes are absolutely essential to delivering the stability these consumers demand, particularly when financial transactions are concerned. That is why our fiscal 2000 focus on execution was so critically important.

At the beginning of the year, we explained it would be a time of investment to secure and extend our market position in EBP (Electronic Billing and Payment) by focusing on quality improvements, infrastructure enhancements and strategic product and service extensions. I believe the strategic advances, investments and agreements we made during the year successfully set the bar higher in our industry for quality and service. Here are the highlights:

Intelligent e-Billing – Getting Closer to Customers

- A key event was CheckFree's acquisition of BlueGill Technologies. As the industry's preeminent developer of intelligent e-billing solutions, BlueGill Technologies is now the cornerstone for CheckFree i-Solutions. This acquisition strengthens our product offering to a new magnitude, making CheckFree the industry's only single-source, end-to-end e-billing solution. CheckFree can get billers to market quickly on a single software platform that is complemented by our unparalleled routing, tracking, customer care and payments infrastructure. Most importantly, CheckFree i-Solutions sets the stage for the next generation of EBP convenience – smart bills that bring billers closer to their customers and give consumers powerful new ways to manage their financial lives.

"EBP adoption will take off quickly beginning in 2001 when a critical number of billers will be electronically presenting their bills to consumers."

— Jupiter Communications July 2000

Online Bill Presentment: Banks Must Ally to Defend Share as EBP Market Opens

"CheckFree's acquisition of BlueGill puts the dominant Internet bill presentment and payment company at least a year ahead of its competitors in offering billers a complete end-to-end software and services solution... Billers cannot afford to ignore the power and reach of CheckFree software and services."

— GartnerGroup Jan. 13, 2000

Clarifying the Marketplace – The TransPoint Merger

_A second major milestone that strengthens CheckFree's market position was our agreement to merge with TransPoint – the EBP venture led by Microsoft, First Data and Citibank. This agreement delivers much more than an expansion of our market share. It eliminates confusion in the marketplace among consumer service providers (CSPs), i.e. banks, brokerages, portals or anyplace consumers pay bills electronically, as well as billers and consumers – all seeking a universal, open system for delivering and paying bills. Billers gain the broadest possible distribution without using multiple systems. CSPs can deliver bills from the companies' combined billing bases without having to implement duplicate systems. Consumers also benefit, as they can receive more bills online.

Accelerating EBP with Bank of America

_The third key event that extends our lead was our agreement with Bank of America to assume their electronic billing and payment assets. Given Bank of America's status as the nation's largest financial institution and leading provider of online financial services, the agreement brings 30 million households into CheckFree's distribution reach. About 2.1 million of Bank of America's customers already use the bank's online offerings, processing $800 million worth of bill payment transactions each month. Less than a third of these are enrolled in EBP, with a portion already supported by CheckFree. We view these additional online banking customers as prime candidates for near-term EBP adoption.

Extending Valued Relationships

_We renewed multi-year contracts with four of the nation's leading banks: Chase Manhattan, Wells Fargo, BankOne and Bank of America. Investments we made this year in improving processing efficiency and quality levels significantly contributed to our ability to extend these valued relationships.

FY 01 Innovation: Pay anyone, anywhere, anytime... from existing, secure debit or credit accounts

Expanding Biller Content

_At our June 30 fiscal year-end, almost 200 sites were live with full electronic billing and payment, compared to only one at the end of fiscal 1999. What does this mean? Even though nearly 2,000 financial institutions offer the ability to pay bills through CheckFree, at the end of fiscal 1999 only a single site offered the full round-trip ability to both receive and pay bills electronically, or full EBP. Implementing full EBP through most major banks is a key CheckFree initiative for 2001.

At fiscal year-end, 157 billers had committed to electronic billing and payment using CheckFree systems, and 93 were already making their bills available on the Internet, significantly exceeding our goal of having 120 billers signed and 90 live. Historical perspective makes this accomplishment even more meaningful. At the end of fiscal 1998 we had 22 signed billers, two of which were live. At the end of fiscal 1999 we had 64 signed billers, 29 of which were live. The 93 billers we signed in fiscal 2000 represent *more than double the signings for fiscal 1999*. The 64 billers we took live also represent *more than double the billers we took live in fiscal 1999*.

With the billers we have in distribution *today*, we can deliver varying amounts of bills to all 50 states and the District of Columbia, ranging from 12 bills in Alaska to 22 in California. In these totals are bills from a number of companies providing the same type of service, such as long-distance phone service, so that the average consumer has the potential to receive four to five of *their* bills. Our research shows this number of bills available provides meaningful value to the consumer.

Distribution Goes Farther

_This year we broadened our ability to bring electronic billing and payment to these Internet sites:

- Yahoo!, the United States Postal Service site, USPS.com and Wingspan;
- AOL, Excite, Lycos and Quicken.com, through our relationship with Intuit;
- and MSN, Prodigy and Go2Net, through our merger with TransPoint.

By year-end, we were distributing 94,000 bills per month, equating to an annual run rate of 1.1 million bills. At the end of fiscal 1999, we were distributing just 13,000 bills per month. Since this growth came with virtually no marketing of the service, we expect accelerated results on this metric in fiscal 2001 as marketing programs from Bank of America and other financial institutions, as well as the United States Postal Service and other portals, come into play.

A Year of Subscriber Growth

_Subscribers grew by 18% for the year, reaching more than 3.5 million from the 3.0 million base with which we began the year. This performance reflects the impact of some of our financial institution partners' having removed unusually large numbers of subscribers from their systems for a variety of reasons – including using non-Y2K-compliant software. The growth trend in *Internet-based* subscribers continued throughout the year at a greater than 20% *per quarter* growth rate, so that we closed the year with nearly 40% of our subscriber base on the Web.

Extending Electronic Commerce

_We recently rolled out the first application that bridges our Investment Services Division's financial planning technology with our EC Division strategy.

"The merger of CheckFree and TransPoint could be the event that brings mainstream acceptance to EBP. This new CheckFree, which includes First Data and Microsoft, will have significant name recognition within this market."

— Meridien Research Feb. 18, 2000

"In the past 18 months, CheckFree has emerged as something equivalent to the 'Intel Inside' of the EBP market. Regardless of the distribution point a consumer uses for viewing and paying bills on the Internet, chances are CheckFree [processes those] transactions."

— International Data Corp. March 2000

Several financial institutions – including one of our top five bank customers – have begun utilizing our Investment Services tools to extend financial services advice through their retail channels.

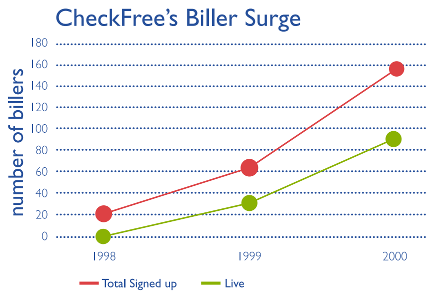
Momentum to Main Street

Clearly, this was a year of "execute to advance" moves. In fiscal 2001, we will focus on leveraging our advancements to drive overall market momentum. Integral to this strategy is our agreement with Bank of America to jointly develop "next generation payment" capabilities that enable consumers to use their existing, secure, trusted bank accounts – whether debit or credit – to pay anyone, for anything, anywhere, anytime, electronically on the Web. Consumers who buy online benefit from not having to share their personal account information with a variety of Internet merchants or auction participants just to do business with them. Financial institutions, Internet merchants and consumers who sell via the Web get a way to guarantee payment that has the immediacy paper checks and money orders lack, at a lower cost than credit card transactions.

We will extend this capability to all financial institutions offering CheckFree services, so that thousands of financial institutions can serve as the central payments hub for all of their customers' Internet activities.

This will require us to take our market-leading processing infrastructure, Genesis, farther as well. Genesis already has a commanding advantage in terms of processing scale, having processed nearly 170 million bill payment transactions in fiscal 2000, compared to somewhere between 6 and 12 million transactions processed by our nearest competitor during the same period.

This extensive difference in scale delivers not only volume efficiency advantages, but experience advantages that bear knowledge for how we can continue to advance the quality, accuracy and security of our routing, tracking, claim resolution and customer care processes.



In fiscal 2001 we will extend this already market-leading infrastructure with the ability to meld electronic billing and payment, person-to-person payments and person-to-business payments on one platform. The power of this offering is that it addresses head-on the two factors our research shows are most important in getting consumers comfortable with transacting their financial lives on the Web: convenience and security.

It is convenient because consumers can use the same accounts for everything – no pre-funding accounts, no keeping track of multiple payment methods. It's secure because consumers no longer have to share sensitive personal information with merchants or other people on the Internet. The bank simply vouches for the payment and executes the transaction. We are calling these features Genesis NextGen, because they have the power to create the next generation of daily financial management behavior on the Web, with the bank's role front and center.

We go farther. You get closer.

This will be the CheckFree experience in fiscal 2001 for billers, financial institutions, Internet portals and our other partners. Far from being content with the market leadership position we have established, we plan to accelerate our efforts to drive the market overall. We will take the definition of electronic billing and payment farther by adding to it the ability for people to be able to pay their bills, each other and any company doing business over the Internet – all from their existing, safe, trusted, secure bank account, whether debit or credit.

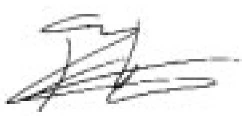
In fiscal 2001, we will take our biller partners farther by working to get the majority of the consumer service providers that offer bill payment through CheckFree to also offer consumers the ability to both view and pay bills. Having Bank of America fully enabled with complete round-trip electronic billing and payment will have a tremendous impact here.

In fiscal 2001, we plan to take consumers farther by making electronic billing and payment – as well as integrated person-to-person and person-to-business payments – available wherever and whenever they want, with the security and ease of use they demand.

We also will be tapping the potential of our i-Solutions group to deliver one-to-one marketing features and business-to-business billing and statement capabilities that are natural extensions of the solutions we offer today.

Finally, we will also take our biller partners farther through our broad support of biller service providers, giving billers a wide array of choices for deploying electronic billing and payment applications. Our equity investment in billserv.com gives billers the ability to use the same i-Solutions technology to deploy electronic billing and statement applications in-house or in an outsource mode as business requirements dictate, which simplifies migrating between these options.

As billers deploy content-rich interactive bills, consumers will find that beyond just convenience, electronic billing and payment gives them the power to manage their relationships with companies in ways paper bills don't make possible. From getting information tailored to their needs, to receiving better customer service – real time, any time – this next generation of online consumers will change the landscape of financial electronic commerce. Our goal is to provide CheckFree services to any company helping to create that transformation.



Pete Kight
Chairman and Chief Executive Officer

you get closer

shareholders: > letter from the president

Main Street Momentum, Market-Leading Quality, Efficiency and Innovation

CheckFree's strong market position is largely a result of our success in increasing quality, improving cost efficiencies and delivering market-leading product innovations.

Each year, CheckFree sets the bar higher for quality enhancements that continue to outpace the competition and drive market leadership. In fiscal 1999, we focused on migrating transaction processing from legacy systems to Genesis, our consolidated state-of-the-art processing platform. Last summer, we announced that fiscal 2000 would be a year of investment in infrastructure and processes to extend our quality, scalability and efficiency. I'm pleased to report that by maintaining a focus on execution and fundamentals, even while confronting an increasingly dynamic and competitive landscape, we added significantly to our leadership position in fiscal 2000. Key successes during fiscal 2000 include:

_Processing quality. Last year we committed ourselves to achieving "dial-tone quality" – a level of consistent reliability that opens the door to everyday usage by everyday people, not just "early adopters" and techno-savvy Web users. Several state-of-the-art service organizations have embraced a statistical measure called "Sigma" to calibrate quality. Dial-tone quality can be expressed as 4.6 Sigma or a 99.9% quality level. Our consistently increasing trend in fiscal 2000 brought us to 4.5 Sigma, just shy of our goal but still at a 99.85% quality level – a significant improvement over fiscal 1999. Most importantly, we are on target to achieve and maintain 4.6 Sigma for fiscal 2001. This demonstrated ability to deliver such unsurpassed quality was instrumental in our renewal of contracts with several major financial institutions in the past year.

_Processing efficiency. In fiscal 2000 we improved our rate of processing "pay anyone" transactions electronically from 49% to 58%. Since each percentage point equates to more than 160,000 transactions per month shifted from paper to electronic remittance, this gain will allow us to process at least 15 million more transactions electronically in fiscal 2001. And because electronic transactions generate roughly one-fifth the consumer inquiries of paper transactions, resulting in significantly lower costs and greater customer satisfaction, our continued focus on improving this metric advances nearly all of our key objectives. It was also a major catalyst that helped us to reduce unit costs by more than 10%, exceeding a goal we had set for fiscal 2000 and establishing a trend that will persist and accelerate as we move EBP to Main Street.

_Innovative new products that lead and redefine the market. We launched Market Direct 2.0, the first new product under the CheckFree i-Solutions brand. CheckFree i-Solutions includes all of CheckFree's biller-targeted offerings and combines the former BlueGill Technologies and CheckFree e-bill teams. Market Direct 2.0 is an Internet-based marketing application that enables billers to add targeted marketing and promotion capabilities to their electronic bills. This product is strategically important for CheckFree because the enhanced marketing potential of electronic billing has become a primary reason billers are implementing EBP solutions.

_Agreements that help us provide simple, easy-to-use electronic billing and payment wherever consumers want to be. Pete Kight has already discussed the BlueGill Technologies, TransPoint and Bank of America transactions that solidify our position in the EBP

Taking our other business units farther

Across each of CheckFree's three business units, the focus for fiscal 2001 is setting the bar higher, taking the business farther. In fiscal 2000, a similar focus on quality execution led to strong performance.

Our Investment Services Division continues to lead in its market, closing the year with more than 950,000 portfolios under management, representing 35% growth over fiscal 1999. With 38 of the top 50 brokerage firms using products from CheckFree Investment Services, as well as 32 of the top 40 Wrap managers, CheckFree continues to extend its leadership in this industry.

CheckFree's ACH Solutions added six major banks to its roster of customers investing in CheckFree's new state-of-the-art platform for ACH processing. The division also added four major banks to CheckFree's Alliance Solutions insourcing service for large-scale ACH transaction processing, up from two at the beginning of the year. CheckFree's Financial and Compliance Solutions (CFACS) group garnered new business from Charles Schwab, Fidelity Investments, Consolidated Edison, MetLife, Firstar Bank and others.

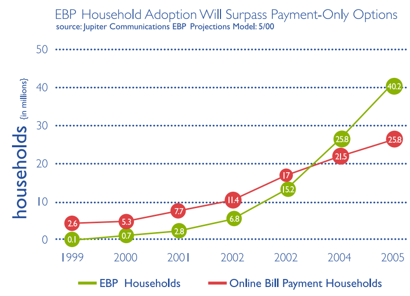
space. While these alone would comprise a good year's work, CheckFree forged several additional relationships that further strengthen our position:

_A strategic alliance with the United States Postal Service naming CheckFree as the electronic billing and payment provider for its Internet portal, USPS.com. This agreement includes incentives to the Postal Service to spend significant amounts on nationwide marketing campaigns promoting EBP convenience, savings and security.

_An agreement to use Equifax technology to streamline the consumer online enrollment process. CheckFree will incorporate the Equifax Secure Authentication engine into our enrollment process in order to give consumers the fastest, easiest and most secure method of signing up and using electronic billing and payment.

_Agreements with such technology companies as wireless provider 724 Solutions and account aggregation provider Yodlee, which deliver services that, when applied to electronic billing and payment, advance the realization of anytime, anywhere, any way consumer access.

_An equity investment in billserv.com, a leading electronic billing service bureau. Billserv provides outsourced turnkey solutions that let billers present bills to their customers via the Internet. Because billserv's offering is built on CheckFree i-Solutions software, billers will have a direct migration path to CheckFree's in-house solutions.



Going Farther in Fiscal 2001

Our fiscal 2000 successes have positioned us well to direct more focus to building market momentum in fiscal 2001. In the coming year, we plan to continue to invest in the areas of billing content, quality infrastructure and new business opportunities, such as next-generation payments. We will drive the overall market for electronic billing and payment through seven initiatives:

_Innovations that increase consumer interest and value. This includes being able to pay anyone for anything, anywhere, anytime electronically on the Internet. We plan to implement end-to-end support for person-to-person and person-to-business payments into our core electronic billing and payment infrastructure to deliver this new level of consumer convenience.

_Channel extensions that make electronic billing and payment more broadly accessible and easy to use. Our strategy includes plans to work with our consumer service providers to enable the majority of them – with a particular focus on the country's largest financial institutions – to offer consumers the ability to both view and pay bills online.

_Billing content that heightens consumer convenience and savings, combined with improved quality in our electronic billing processes. We have set an aggressive goal of signing 75 additional billers in fiscal 2001 and moving 80 more billers into active production. At year's end, this would set our roster at over 250 billers with over 200 live, including the approximately 30 billers acquired through the TransPoint merger. At this level, most consumers in major markets will have the potential to receive and pay at least half of their recurring bills with end-to-end electronic convenience.

_Coordinating market awareness campaigns with our distribution partners. We are actively supporting the marketing initiatives of several of our key consumer service provider and biller customers in order to bring them together, where practical, to jointly promote value to consumers.

_Continuing to set the example for open operations, which is the only way to ensure that consumers and billers can meet on the Web anywhere they choose. Today, CheckFree operates the most open system on the market, linking literally thousands of banks and merchants, 157 e-billers, 21 biller service providers and all major credit unions, brokerage firms and Internet portals to enable them to deliver end-to-end electronic billing and payment. Genesis NextGen capabilities will set the bar even higher for defining openness in the market – any bank account can be used to pay any bill, any person or any merchant for any party enrolled in the system. CheckFree's extensive, comprehensive infrastructure will be able to manage the transactions cost-effectively in ways that work with the existing – and disparate – back-end processing systems that banks, merchants, billers, biller service providers and consumer service providers already have in place.

_Extending the value we deliver to our financial institution partners by leveraging software and services from our Investment Services and Software Services divisions. These include e-billing and payment software, ACH software and financial and compliance software, as well as financial planning software and services supplied by the Mobius unit of CheckFree Investment Services.

_Continuing to enhance the quality and cost-efficiency of our Genesis infrastructure as we innovate new service extensions that entice consumers to conduct more of their financial transactions online. Chief among these enhancements will be the incorporation of technology gained through our merger with TransPoint, so that we can create a combined "go forward" platform that utilizes the best of both the CheckFree and TransPoint systems.

The strategic moves we made in fiscal 2000 made for an eventful, exciting year. We plan to leverage these advances in fiscal 2001 to create the kind of momentum required to make paying anyone, for anything, anywhere, anytime as ubiquitous as e-mail, and just as easy. At the same time, we understand the need for continued focus on and execution of the fundamentals, as these will continue to anchor CheckFree's competitive advantage.

Pete Sinisgalli
President and Chief Operating Officer

shareholders: > financials

SELECTED FINANCIAL DATA

The selected consolidated financial data for the years ended June 30, 1998, 1999 and 2000 have been derived from the Company's financial statements included elsewhere in this Annual Report which have been audited by Deloitte and Touche, LLP, independent certified public accountants, whose report thereon is also included elsewhere in this Annual Report. The selected consolidated financial data for the six months ended June 30, 1996 and the years ended December 31, 1995 and 1997 have been derived from audited financial statements of the Company which are not included in this Annual Report. To assist the reader in the analysis of results of operations, unaudited results of operations for the twelve months ended June 30, 1996 and the six months ended June 30, 1995 are also provided. The selected consolidated financial data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes thereto elsewhere in this Annual Report. The earnings per share amounts prior to fiscal year 1998 have been restated to comply with Statement of Financial Accounting Standards No. 128 "Earnings per Share" (SFAS 128) as required. For further discussion of earnings per share and the impact of SFAS 128, see Note 1 to the consolidated financial statements. The financial information for the periods presented below includes all adjustments necessary for a fair presentation of results of operations.

	Year Ended December 31,	Twelve Months Ended June 30,	Six Months Ended June 30,		Year Ended June 30,			
	1995	1996	1995	1996	1997	1998	1999	2000
Statement of Operations:								
Revenues:								
Processing, servicing and merchant discount	$ 49,330	$ 59,053	$ 23,581	$ 33,305	$ 104,522	$ 159,255	$201,059	$ 261,621
License fees	-	10,970	-	10,970	33,088	28,952	15,975	16,818
Maintenance fees	-	1,978	-	1,978	22,567	25,848	17,746	18,752
Other	-	4,788	-	4,787	16,268	19,809	15,351	13,004
Total revenues	49,330	76,789	23,581	51,040	176,445	233,864	250,131	310,195
Expenses								
Cost of processing, servicing and support	30,258	51,236	14,461	35,438	102,721	129,924	146,704	182,540
Research and development	6,876	13,765	3,019	9,907	32,869	36,265	21,085	35,631
Sales and marketing	7,242	21,349	3,060	17,167	32,670	28,839	32,354	44,782
General and administrative	4,134	9,598	1,915	7,338	18,707	20,677	31,466	40,931
Depreciation and amortization	2,485	8,246	1,194	6,997	24,919	24,999	24,630	42,830
In-process research and development	-	122,358	-	122,358	140,000	719	2,201	6,900
Charge for stock warrants	-	-	-	-	-	32,827	-	-
Exclusivity amortization	-	-	-	-	5,958	2,963	-	-
Total expenses	50,995	266,552	23,649	199,205	357,844	277,213	258,440	353,614
Net gain on dispositions of assets	-	-	-	-	6,250	36,173	4,576	-
Income (loss) from operations	(1,665)	(149,763)	(68)	(148,165)	(175,149)	(7,176)	(3,733)	(43,419)
Interest:								
Income	2,135	3,104	535	1,695	2,153	3,464	2,799	7,689
Expense	(645)	(484)	(330)	(325)	(834)	(632)	(618)	(8,027)
Income (loss) before income tax	(175)	(147,143)	137	(146,831)	(173,830)	(4,344)	(1,522)	(43,757)
Income tax expense (benefit)	40	(8,650)	62	(8,628)	(12,017)	(641)	(12,009)	(11,437)
Income (loss) before extraordinary item	(215)	(138,493)	75	(138,203)	(161,813)	(3,703)	10,457	(32,320)
Extraordinary item	-	(364)	-	(364)	-	-	-	-
Net income (loss)	$ 215	$ (138,857)	$ 75	$ (138,567)	$ (161,813)	$ (3,703)	$ 10,457	$ (32,320)
Diluted income (loss) per common share before extraordinary item	$ 0.01)	$ (4.14)	$ -	$ (3.69)	$ (3.44)	$ (0.07)	$ 0.18	$ (0.61)
Diluted income (loss) per common share	$ (0.01)	$ (4.15)	$ -	$ (3.70)	$ (3.44)	$ (0.07)	$ 0.18	$ (0.61)
Equivalent number of shares outstanding	28,219	33,435	29,299	37,420	46,988	55,087	56,529	53,367
Balance Sheet Data:								
Working capital	$ 81,792	$ 45,496	$ 10,481	$ 45,496	$ 20,002	$ 78,238	$ 24,245	$ 178,761
Total assets	115,642	196,230	31,696	196,230	223,836	250,112	252,761	713,114
Long-term obligations, less current portion	7,282	8,324	7,735	,324	8,401	6,467	3,882	173,236
Total stockholder's equity	99,325	137,675	16,493	137,675	48,644	183,854	186,903	445,894

Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

We are the leading provider of electronic billing and payment services. We operate our business through three independent but inter-related divisions:

- Electronic Commerce;
- Investment Services; and
- Software

Our Electronic Commerce business provides services that allow consumers to:

- Receive electronic bills through the internet;
- Pay any bill – electronic or paper – to anyone; and
- Perform customary banking transactions, including balance inquiries, transfers between accounts and on-line statement reconciliations.

We currently provide electronic billing and payment services for over 3.5 million consumers. Our services are available through over 350 sources, including:

- 23 of the 25 largest banks in the United States;
- 8 of the top 10 brokerage firms in the United States;
- Internet portals;
- Internet-based banks;
- Internet financial sites such as Quicken.com; and
- Personal financial management software such as Quicken and Microsoft Money.

We have developed contracts with over 1,100 merchants nationwide that enable us to remit 58% of all of our bill payments electronically. As of June 30, 2000, we were processing approximately 16 million transactions per month and for the year ended June 30, 2000, we processed nearly 170 million transactions.

In March 1997, we introduced electronic billing – "E-Bill" – which enables merchants to deliver billing information as well as marketing materials to their customers electronically over the Internet. Through June 30, 2000, we have placed 93 billers into production and are now delivering in excess of 94,000 electronic bills monthly through E-Bill. We derive revenue from our billers on a per bill presented basis.

Currently, when a customer instructs us to pay a bill, we have the ability to process the payment either by electronic funds transfer, by paper check, or by draft drawn on the customer's account. Our patented bill payment processing system in Norcross, Georgia determines the preferred method of payment based on a credit analysis of the customer, assessment of the customer's payment history, the amount of the bill to be paid and other relevant factors.

If the results of the credit analysis are favorable, we will assume the risk of collection of the funds from the customer's account, and if we have an electronic connection to the merchant, the remittance will be sent electronically. Otherwise, the remittance will be sent to the merchant by a paper check or draft drawn directly on the customer's checking account. In an electronic remittance, the funds are transmitted electronically to the merchant with a customer's account number included as an addenda record. For a paper draft, the customer's name, address, and account number are printed on the face of the check. In addition, our processing system provides the ability to aggregate multiple electronic and paper remittances due to merchants. Thus, if multiple payments are going to the same merchant on the same day, we may send one check for the sum of these payments and include a remittance statement that provides the customers' names, addresses, account numbers, and payment amounts. Our strategy is to drive operational efficiency and improve profitability by increasing the percentage of transactions we process electronically. Since June 1998, we have increased our electronic payments ratio from 32% of total payments processed to 58% by June 2000.

Our traditional financial institution pricing structure was based primarily on subscriber fees, which grew roughly proportionally to the number of subscribers added, regardless of activity. During fiscal 2000, we announced a new pricing structure available to our largest financial institution customers. The new pricing program includes a fee per transaction processed, a small per subscriber fee and a fixed monthly fee to cover our infrastructure costs. Both programs provide for monthly minimum fees. Until we see significant increases in the number of electronic billing and payment customers enrolling through financial institutions, we do not anticipate that this pricing change will have a significant impact on our revenues. Once the subscriber growth rates begin to accelerate and financial institutions adopt the new pricing program, revenue growth will become more dependent upon customer usage of our services. As of June 30, 2000, less than five financial institutions had adopted the new pricing program.

We are also a leading provider of institutional portfolio management and information services and financial application software. Our Investment Services business offers portfolio accounting and performance measurement services to investment advisors, brokerage firms, banks and insurance companies and financial planning application software to financial planners.

Our portfolio management systems solution includes:

- data conversion;
- personnel training;
- trading system;
- graphical client reporting;
- performance measurement;
- technical network support and interface setup; and
- Depository Trust Corporation processing.

Our financial planning software applications include:

- retirement and estate planning modules;
- cash flow, tax and education planning modules;
- an asset allocation module; and
- an investment manager performance database system.

Our Software businesses provide electronic commerce and financial applications software and services for businesses and financial institutions. We design, market, license and support the following software applications, among others:

- i-Solutions

  The i-Solutions product line, a set of electronic billing software products developed for various industry segments, was added through the acquisition of BlueGill Technologies, Inc. in April 2000. These products allow billers to install and launch an electronic billing product, send e-mail notifications and present electronic bills through the Internet, and connect to a variety of bill aggregators and payment methods. Each product includes an electronic billing web site template that is unique to a specific industry segment. Using the template as a sample design of their Internet billing site, our customers spend less time developing and designing the look and feel of their Internet billing sites, which accelerates the product implementation process. The billing software is tightly integrated with our electronic payment processing system, thereby providing synergy with our Electronic Commerce products as well.

- Electronic Funds Transfer

  Through our Paperless Entry Processing System Plus software, we offer an online, real-time system providing an operational interface for originating and receiving payments through the automated clearinghouse. The automated clearinghouse is a nationwide electronic clearing and settlement system that processes electronically originated credit and debit transactions among participating depository institutions. These electronic transactions are substitutes for paper checks and are typically used for recurring payments like direct deposit payroll payments and corporate payments to contractors and vendors, debit transfers that consumers make to pay insurance premiums, mortgages, loans and other bills, and business to business payments. You may obtain additional information at www.federalreserve.gov. We do not maintain a direct connection with the automated clearinghouse, but rather, clear our transactions through KeyBank, N.A., under the terms of an automated clearinghouse agreement.

- Reconciliation

  Through our RECON-PLUS software, we provide United States banks, international banks and corporate treasury operations with automated check and non-check reconciliations in high volume, multi-location environments. Some of the services provided by RECON-PLUS are automated deposit verification, consolidated bank account reconciliation and cash mobilization, immediate and accurate funds availability data, and improved cash control.

- Other

  We also provide software solutions such as regulatory compliance software for Form 1099 processing, safe box accounting and other applications.

During the fiscal year ended June 30, 2000, Electronic Commerce accounted for 69% of our revenues, Investment Services for 17% and Software for the remaining 14%.

Our current business was developed through expansion of our core Electronic Commerce business and the acquisition of companies operating in similar or complementary businesses. Our major acquisitions include Servantis Systems Holdings, Inc. in February 1996, Security APL, Inc. in May 1996, Intuit Services Corporation in January 1997, Mobius Group, Inc. in March 1999, and BlueGill Technologies, Inc. in April 2000. On February 15, 2000, we announced the planned acquisition of MSFDC, L.L.C (TransPoint), which closed in September 2000. On April 27, 2000, we announced a 10-year strategic agreement with Bank of America that includes our purchase of the bank's electronic bill payment assets. We expect this agreement to close early in the quarter ended December 31, 2000.

During fiscal 1998, we made the decision to sell some of our software businesses that did not directly promote our strategic direction. These divestitures included the sale of our recovery management business in August 1997, our item processing business in March 1998, our wire and electronic banking businesses in April 1998, our leasing business in July 1998, our mortgage business in September 1998 and our imaging business in October 1998. While we have no pending agreements to dispose of any other of our software businesses, we do receive offers to purchase these businesses from time to time.

Results of Operations

The following table sets forth percentages of revenue represented by consolidated statements of operations data:

	Year ended June 30,		
	1998	1999	2000
Total revenues	100.0%	100.0%	100.0%
Expenses:			
Cost of processing, servicing and support	55.6	58.7	58.8
Research and development	15.5	8.4	11.5
Sales and marketing	12.3	12.9	14.4
General and administrative	8.8	12.6	13.2
Depreciation and amortization	10.7	9.8	13.8
In-process research and development	0.3	0.9	2.2
Charge for stock warrants	14.0	-	-
Exclusivity amortization	1.3	-	-
Total expenses	118.5	103.3	114.0
Net gain on dispositions of assets	15.4	1.8	-
Loss from operations	(3.1)	(1.5)	(14.0)
Interest:			
Income	1.5	1.1	0.2
Expense	(0.3)	(0.2)	(0.3)
Loss before income taxes	(1.9)	(0.6)	(14.1)
Income tax benefit	(0.3)	(4.8)	(3.7)
Net income (loss)	(1.6)%	4.2%	(10.4)%

Years Ended June 30, 1999 and 2000

Revenues. Our total reported revenue increased by 24%, from $250.1 million for the year ended June 30, 1999, to $310.2 million for the year ended June 30, 2000. On a pro forma basis, net of the divestitures of our mortgage business in September 1998 and our imaging business in October 1998, and adjusting for the acquisition of Mobius Group in March 1999 and BlueGill in April 2000, revenue increased 22%, from $252.9 million for the year ended June 30, 1999, to $308.5 million for the year ended June 30, 2000. The increase in pro forma revenue was driven by increases of 26% in our Electronic Commerce segment, 25% in our Investment Services segment, and 1% in our Software segment. Growth in Electronic Commerce revenue is driven primarily by an increase in subscribers from nearly 3.0 million at June 30, 1999 to over 3.5 million at June 30, 2000. It should be noted that the 3.5 million subscriber number is net of approximately 0.4 million subscribers utilizing old legacy or non Year 2000 compliant front ends that were purged by financial institutions during the six months ended December 31, 2000. Pro forma growth in Investment Services revenue is driven primarily by an increase in portfolios managed from approximately 700,000 at June 30, 1999 to approximately 950,000 at June 30, 2000. In spite of dampened demand caused by customer focus on Year 2000 projects early in the fiscal year, the Software segment was able to achieve nominal growth on a pro forma basis for the year ended June 30, 2000.

Reported processing and servicing revenue increased by 30%, from $201.1 million for the year ended June 30, 1999, to $261.6 million for the year ended June 30, 2000. On a pro forma basis, adjusting for the acquisition of Mobius Group in March 1999, processing and servicing revenue increased by 27%, from $205.4 million for the year ended June 30, 1999, to $261.9 million for the year ended June 30, 2000. Pro forma growth in processing and servicing revenue is primarily the result of the previously mentioned growth in subscribers in our Electronic Commerce segment and portfolios managed in our Investment Services segment. Our processing agreements with portals allow for a free trial period for subscribers who enroll through the portal. Because these subscribers are not generating revenue during this free period, we do not count them in our active subscriber base. Additionally, we now have 93 billers in production that presented approximately 94,000 bills in the month ended June 30, 2000. The number of bills we presented electronically has increased by 52% since the month ended March 31, 2000 and is up significantly from just over 13,000 per month at June 30, 1999. When combined with a new transaction based pricing model that we have made available to our largest customers, it will become increasingly more difficult to correlate Electronic Commerce revenue solely to the number of subscribers, with transactions processed becoming an additional indicator. We exited the quarter ended June 30, 2000 processing about 16 million transactions on a monthly basis, compared to about 12 million as of June 30, 1999.

Reported license fee revenue increased by 5%, from $16.0 million for the year ended June 30, 1999 to $16.8 million for the year ended June 30, 2000. On a pro forma basis, adjusting for the impact of divested software businesses and the acquisition of BlueGill in April 2000, license revenue declined by 3% from $15.7 million for the year ended June 30, 1999 to $15.3 million for the year ended June 30, 2000. In spite of dampened demand caused by customer focus on Year 2000 projects early in the fiscal year, the Software segment was able to generate fairly consistent license sales on a year over year basis. With the addition of BlueGill's i-Solutions product line to the Software segment, we are expecting license revenue to grow again in fiscal 2001.

Reported maintenance fee revenue increased by 6%, from $17.7 million for the year ended June 30, 1999, to $18.8 million for the year ended June 30, 2000. On a pro forma basis, adjusting for the impact of divested software businesses and the acquisition of BlueGill, maintenance revenue increased by 10%, from $16.9 million for the year ended June 30, 1999, to $18.6 million for the year ended June 30, 2000. This increase is due to first year maintenance fees from new maintenance paying customers added late in fiscal 1999 and throughout fiscal 2000 and moderate price increases, offset by maintenance retention rates in the mid to upper 80% range for the renewal maintenance base in the Software segment.

Reported other revenue, consisting mostly of consulting fees, decreased by 16%, from $15.4 million for the year ended June 30, 1999, to $13.0 million for the year ended June 30, 2000. On a pro forma basis, adjusting for the impact of divested software businesses and the acquisitions of Mobius Group and BlueGill, other revenue decreased by 15%, from $14.9 million for the year ended June 30, 1999, to $12.7 million for the year ended June 30, 2000. The decrease in pro forma revenue is due primarily to the decline in software implementations and other software consulting engagements resulting from customer software implementation freezes earlier in fiscal 2000 in preparation for and follow up from the Year 2000.

Cost of Processing, Servicing and Support. Our processing, servicing and support costs consist primarily of data processing costs, customer care, technical support, third party transaction fees and consulting delivery costs. Our cost of processing, servicing and support was $146.7 million or 58.7% of total revenue for the year ended June 30, 1999, and was $182.5 million or 58.8% of total revenue for the year ended June 30, 2000. Cost of processing, servicing and support as a percentage of servicing only revenue (all revenue except license) was 62.7% for the year ended June 30, 1999, and was 62.2% for the year ended June 30, 2000. From an efficiency perspective, our ratio of electronic payments to total payments has improved from 49% at June 30, 1999 to 58% at June 30, 2000. Electronic payments carry a significantly lower variable cost per unit than paper based payments. Additionally, we have seen improvements from the leverage inherent in converting two–thirds of our subscribers from two legacy systems to our Genesis processing system. These improvements, however, are offset by E-Bill implementation costs as we continue to move an increasing number of billers into live production and by transaction costs generated by portal subscribers operating within their free period. Additionally, throughout the year ended June 30, 2000, we invested significantly in quality improvement and infrastructure improvement initiatives to prepare for future growth.

Research and Development. Our research and development costs consist primarily of salaries and consulting fees paid to software engineers and business development personnel and are stated net of capitalized software development costs. Research and development costs were $21.1 million or 8.4% of total revenue for the year ended June 30, 1999, and were $35.6 million or 11.5% of total revenue for the year ended June 30, 2000. Adjusted for capitalized development costs of $7.4 million for the year ended June 30, 1999 and $7.9 million for the year ended June 30, 2000, our gross research and development costs were $28.5 million, or 11.4% of total revenue for the year ended June 30, 1999, and $43.5 million, or 14.0% of total revenue for the year ended June 30, 2000. While $0.9 million of the increase is attributable to BlueGill, we have continued to invest a significant portion of our revenue into research and development activities in all business segments in anticipation and support of revenue growth, quality enhancement and efficiency improvement opportunities.

Sales and Marketing. Sales and marketing costs were $32.4 million or 12.9% of total revenue for the year ended June 30, 1999, and were $44.8 million or 14.4% of total revenue for the year ended June 30, 2000. While BlueGill accounts for $2.3 million of the increase, we have increased our sales staff to sign additional billers in support of our electronic billing offerings and we have increased program management staff in support of new non-subscriber based products designed to leverage our existing electronic payment infrastructure. We expect to incur increased promotional expenses in support of electronic billing and payment offerings through financial institutions and Internet portals in a continuing effort to accelerate the growth of subscribers in our Electronic Commerce segment.

General and Administrative. Our general and administrative expenses consist primarily of salaries for administrative, executive, accounting and finance, legal, and human resource associates. General and administrative expenses were $31.5 million or 12.6% of total revenue for the year ended June 30, 1999, and were $40.9 million or 13.2% of total revenue for the year ended June 30, 2000. Aside from the $0.9 million of added cost directly attributable to BlueGill and a full year of Mobius Group operations, the increase in general and administrative expense is due principally to an increase in facilities costs resulting from upgraded facilities in Dublin, Ohio and Jersey City, New Jersey and a new facility in Phoenix, Arizona; an increase in our allowance for estimated doubtful accounts consistent with realized revenue growth; and increased administrative staff required to manage growth in all areas of the company.

Depreciation and amortization. Our depreciation and amortization costs increased from $24.6 million for the year ended June 30, 1999, to $42.8 million for the year ended June 30, 2000. The increase was primarily the result of amortization of intangible assets resulting from the Mobius Group and BlueGill acquisitions. The amount of the increase directly attributable to BlueGill alone was $10.2 million. The remaining increase is the result of capital spending in support of continued growth and quality improvement initiatives. With the acquisitions of BlueGill and TransPoint, and the completion of the asset purchase from Bank of America, we expect significant increases in depreciation and amortization from the resulting increase in tangible and intangible assets.

In-Process Research and Development. The in-process research and development charge of $2.2 million for the year ended June 30, 1999 resulted from our purchase of the Mobius Group in March 1999 and the charge of $6.9 million for the year ended June 30, 2000 resulted from our purchase of BlueGill in April 2000. Please refer to the Notes to Consolidated Financial Statements included herein for a detailed discussion of these charges.

Interest. Our interest income increased from $2.8 million for the year ended June 30, 1999 to $7.7 million for the year ended June 30, 2000. The increase was primarily due to an increase in average cash and investments from $43.3 million for the year ended June 30, 1999 to $115.5 million for the year ended June 30, 2000. The increase in average cash and investments is primarily the result of proceeds from the convertible subordinated debenture offering in November of 1999.

Our interest expense increased from $0.6 million for the year ended June 30, 1999, to $8.0 million for the year ended June 30, 2000. The increase is due primarily to $172.5 million of 6.5% convertible subordinated notes that we issued in November 1999. None of the convertible debt had been converted into shares of our common stock as of June 30, 2000.

Income Taxes. For the year ended June 30, 1999 we recorded an income tax benefit of $12.0 million (effective rate not meaningful), and for the year ended June 30, 2000 we recorded an income tax benefit of $11.4 million with an effective rate of 26%. In the year ended June 30, 1999 we recorded a one-time tax benefit of approximately $12.2 million arising out of our medical benefits management subsidiary. Net of this one-time benefit, the effective rates in both years differ from the statutory rate of 35% due to goodwill, in-process research and development and other non deductible expenses; jobs credits; state income taxes; and tax exempt interest income.

Years Ended June 30, 1998 and 1999

Revenues. Our total reported revenue increased by 7%, from $233.9 million for the year ended June 30, 1998 to $250.1 million for the year ended June 30, 1999. This increase in revenue was due to growth in our Electronic Commerce and Investment Services segments, offset by a decrease in our Software segment. The decrease in our Software segment revenue was the result of our divestitures of certain of our software businesses. We divested our recovery management business in August 1997, our item processing business in March 1998, our wire and electronic banking businesses in April 1998, our leasing business in July 1998, our mortgage business in September 1998 and our imaging business in October 1998.

On a pro forma basis, excluding the impact of our divested software businesses, the discontinuance of our web investor business in our Electronic Commerce segment in June 1998, and revenue from the Mobius Group acquisition in our Investment Services segment in March 1999, our total revenue increased 21%, from $204.4 million for the year ended June 30, 1998, to $246.4 million for the year ended June 30, 1999. The increase in our pro forma revenue from fiscal 1998 to fiscal 1999 was driven by increases of 23% in our Electronic Commerce segment, 26% in our Investment Services segment and 6% in our Software segment. Our growth in pro forma Electronic Commerce revenue was driven primarily by subscriber growth from approximately 2.4 million at June 30, 1998 to nearly 3.0 million at June 30, 1999. Our growth in pro forma Investment Services revenue was driven primarily by an increase in portfolios managed from approximately 500,000 at June 30, 1998 to approximately 715,000 at June 30, 1999, offset by lower average revenue per portfolio, as marketing efforts have shifted the mix of new business toward retail versus institutional portfolios. Although demand was somewhat dampened due to customer focus on Year 2000 projects, in our Software segment we had moderate pro forma revenue growth, primarily due to increased implementations in our automated clearinghouse product line.

Our reported processing and servicing revenue increased by 26%, from $159.3 million for the year ended June 30, 1998, to $201.1 million for the year ended June 30, 1999. On a pro forma basis, adjusted for revenue contributed by our acquisition of Mobius Group in our Investment Services segment in March 1999 and the discontinuance of our web investor business in our Electronic Commerce segment in June 1998, revenue increased by 26% from $158.4 million for the year ended June 30, 1998, to $199.2 million for the year ended June 30, 1999. This growth was primarily the result of increases in our subscribers in our Electronic Commerce segment and the number of portfolios managed in our Investment Services segment as discussed in the foregoing paragraph.

Our reported license revenue declined by $13.0 million, from $29.0 million for the year ended June 30, 1998, to $16.0 million for the year ended June 30, 1999. This decline was primarily due to previously described divestitures of certain of our software businesses. On a pro forma basis, excluding the impact of the divested software businesses, our license fee revenue declined by $1.3 million, from $17.0 million for the year ended June 30, 1998, to $15.7 million for the year ended June 30, 1999. The pro forma decline in license fee revenue was primarily due to softness in our software sales resulting from purchasing moratoriums imposed by customers and potential customers focusing on their Year 2000 issues.

Our reported maintenance revenue declined by $8.1 million, from $25.8 million for the year ended June 30, 1998, to $17.7 million for the year ended June 30, 1999. On a pro forma basis, excluding the impact of the divestiture of certain of our software businesses, previously mentioned, our maintenance fee revenue increased by $0.7 million, from $16.1 million for the year ended June 30, 1998, to $16.8 million for the year ended June 30, 1999. The increase in our pro forma maintenance revenue was primarily due to first year maintenance revenue related to new software sales generated in the second half of fiscal 1998 combined with high retention rates and moderate price increases related to renewal maintenance revenues.

Our reported other revenue, consisting mainly of consulting fees, declined by $4.4 million from $19.8 million for the year ended June 30, 1998, to $15.4 million for the year ended June 30, 1999. On a pro forma basis, excluding the impact of our divested software businesses, our other revenue increased by $1.8 million, from $12.9 million for the year ended June 30, 1998, to $14.7 million for the year ended June 30, 1999. The increase was primarily due to implementations related to new software sales in the second half of fiscal 1998 and early fiscal 1999 and consulting projects related to implementations and client requested Year 2000 contract-based assistance in our Investment Services segment.

Cost of Processing, Servicing and Support. The cost of processing, servicing and support was $129.9 million or 55.6% of total revenue for the year ended June 30, 1998, and $146.7 million or 58.7% of total revenue for the year ended June 30, 1999. Our processing, servicing and support cost as a percentage of servicing only revenue (which includes all revenue except license revenue) was 63.4% for the year ended June 30, 1998, and 62.7% for the year ended June 30, 1999.

Our revenue growth in our Electronic Commerce segment had slowed as financial institutions had been focusing on converting our electronic billing an payment offerings from a PC software-based to a web-based product. Although we continued to realize cost savings as a result of our successful efforts to increase the percentage of our bill payment transactions processed electronically versus paper, during this period we continued to invest in added capacity in anticipation of expected revenue growth as our customers continue their web-based conversions and refocus their efforts on marketing these products to achieve higher subscriber growth. While subscriber growth during the third and fourth quarters of fiscal 1999 was approximately 6%, Internet-based subscriber growth in the same quarters exceeded 20%. Additionally, were incurring the costs of implementing customers from electronic billing and payment for E-Bill without receiving adequate revenue to fully offset the costs. Finally, our Yahoo! distribution agreement resulted in an increase in our operating expenses during the second half of fiscal 1999. These additional operating costs for professional service programs to support timely and effective electronic billing and payment offerings by billers, investments in hardware, software and technical staff to deliver dial-tone quality to an increasing subscriber base and additional customer care staff and related training, continued into fiscal year 2000.

Research and Development. Our research and development costs were $36.3 million or 15.5% of total revenue for the year ended June 30, 1998, and $21.1 million or 8.4% of total revenue for the year ended June 30, 1999. The divested software businesses incurred research and development costs of $8.5 million in the year ended June 30, 1998. Additionally, upon completion of the base Genesis Platform in late fiscal 1998 and the transition of resources from year 2000-related projects that may not be capitalized for GAAP purposes, we capitalized software development costs of $0.7 million for the year ended June 30, 1998, and $7.4 million in the year ended June 30, 1999. As a result, on an absolute dollar basis and net of divested business units, our total research and development expenditures and capitalized software development costs remained consistent at $28.5 million for the years ended June 30, 1998 and 1999. We are continuing to invest significantly in research and development in all three of our business segments in anticipation and support of expected revenue growth, quality improvement and efficiency enhancement opportunities.

Sales and Marketing. Our sales and marketing costs were $28.8 million or 12.3% of total revenue for the year ended June 30, 1998, and $32.4 million or 12.9% of total revenue for the year ended June 30, 1999. Reduced sales and marketing expenses resulting from our divested software businesses were replaced by increased sales expenses related to activities in our electronic billing area and funding for the creation and launch of a new trade group, the Electronic Banking association, which is expected to increase the general population's awareness of, and interest in, the electronic banking industry. Additionally, during the fourth quarter of fiscal 1999, we experienced a system error that led some users of our electronic bill payment service to experience intermittent problems accessing and using the system. In response to this situation, we provided service fee credits of approximately $1.9 million, over and above contractually determined penalties, to our financial institution customers.

General and Administrative. Our general and administrative expenses were $20.7 million, or 8.8% of total revenue for the year ended June 30, 1998, and $31.5 million or 12.6% of total revenue for the year ended June 30, 1999. During the year ended June 30, 1999 we recognized several non-recurring charges including: $1.3 million in real estate expenses related to the sale of a facility in Columbus, Ohio and a separate move to a new facility in Jersey City, New Jersey, $0.9 million in charges related to an uncompleted follow-on stock offering, $0.6 million in charges related to the establishment of a benefits company intended to better manage future benefit expenses in anticipation of growth in associates, and charges to third parties to support various other tax and legal related matters. The divestiture of our various software businesses has not resulted in a corresponding reduction in existing infrastructure since business specific systems and administrative functions must remain to support our retained software businesses and our growing Electronic Commerce and Investment Services businesses.

Depreciation and Amortization. Our depreciation and amortization expenses were $25.0 million for the year ended June 30, 1998, and $24.6 million for the year ended June 30, 1999. Our divestiture of several software businesses resulted in a significant reduction in depreciation and amortization from the elimination of both tangible and intangible assets. These reductions have been offset by incremental depreciation resulting from significant capital investments throughout fiscal 1998 and 1999 in support of the data center migration to our Norcross, Georgia facility, the development of the Genesis project and the support of new business initiatives.

In-Process Research and Development. The in-process research and development charge of $2.2 million incurred in fiscal 1999 resulted from our purchase of the Mobius Group in March 1999. Please refer to the Notes to Consolidated Financial Statements included herein for a detailed discussion of this charge. The in-process research and development charge of $0.7 million in fiscal 1998 resulted from our acquisition of Advanced Mortgage Technology, Inc. in October 1997. The related development projects from the AMTI acquisition continued as planned until the time the software and assets of the mortgage product line, including these products, were sold in September 1998.

Charge for Stock Warrants. The $32.8 million of charge for stock warrants in the year ended June 30, 1998 resulted from two separate transactions. A $32.4 million charge resulted from the vesting of three million warrants in March 1998 related to a ten year processing agreement with a strategic partner that we announced in October 1997. A $0.4 million charge resulted from the vesting of 25,000 warrants in June 1998 related to a five year consulting agreement with a third party. These non-cash charges were based on a Black-Scholes option pricing model valuation of the warrants at the date of vesting. An additional seven million warrants will vest incrementally upon achievement of a series of certain strategic targets and each incremental vesting will result in a future non-cash charge based on the fair market value of our warrants and common stock at the date of vesting.

Exclusivity Amortization. The exclusivity amortization of $3.0 million in the year ended June 30, 1998 was the final amortization related to an exclusivity arrangement we entered into with Intuit, Inc. in conjunction with our purchase of Intuit Services Corporation in January 1997.

Net Gain on Dispositions of Assets. The net gain of $36.2 million in the year ended June 30, 1998 was the result of several transactions. We recorded gains on the sales of our recovery management business of $28.2 million, our item processing business of $3.2 million, and our wire and electronic banking businesses of $14.7 million. The gains in 1998 were offset by a loss on the sale of our leasing business of $4.7 million, expected losses on non-cancelable contracts and real and related costs totaling $1.0 million resulting from the decision to exit our web investor business and charges totaling $4.2 million for certain equipment and other assets related primarily to data center consolidations where we determined that the book value of the assets exceeded their net realizable value. The net gain of $4.6 million in the year ended June 30, 1999 was also the result of several transactions. We recorded gains on the sale of our mortgage business of $6.4 million and the sale of a building in Columbus, Ohio of $1.1 million and offset these gains with a loss on the sale of our imaging business of $2.9 million.

Interest. Our interest income decreased from $3.5 million for the year ended June 30, 1998, to $2.8 million for the year ended June 30, 1999. The reduction was primarily due to a decrease in average cash and investments from $49.3 million for the year ended June 30, 1998, to $43.3 million for the year ended June 30, 1999. Cash proceeds from the various software divestitures in fiscal 1998 and early in fiscal 1999 were significantly offset by a share repurchase in the first and second quarters of fiscal 1999.

Our interest expense remained constant at $0.6 million for the years ended June 30, 1998 and 1999. At the end of fiscal 1999 we paid off approximately $2.5 million in debt related to the sale of our building in Columbus, Ohio.

Income Taxes. Our effective tax rate was 14.8% for the year ended June 30, 1998 and was not meaningful in the year ended June 30, 1999. The difference in our effective rate and our statutory rate of 35% in fiscal 1998 was primarily due to non-deductible in-process research and development expenses, non-deductible intangible amortization and state and local taxes. In fiscal 1999, we recorded a one-time tax benefit of approximately $12.2 million arising out of the medical benefits management subsidiary. Net of this one-time benefit, the resulting tax would have been $0.2 million against a pre-tax loss of $1.6 million. The difference between this adjusted number and the statutory rate of 35% is primarily due to non-deductible in-process research and development expenses, non-deductible intangible amortization and state and local taxes.

Segment Information

The following table sets forth our operating revenue and operating income by industry segment for the periods noted. Charges identified as exclusivity amortization, in-process research and development, charge for stock warrants, and net gain on dispositions of assets were separated from the operating results for a better understanding of the underlying performance of each segment. Explanations of these charges can be found in the discussions above.

	Year ended June 30,		
	1998	1999	2000
		(In thousands)	
Operating Revenue:			
Electronic Commerce	$ 137,972	$ 169,443	$ 213,391
Investment Services	29,749	39,304	54,792
Software	66,143	41,384	42,012
Total Operating Revenue	$ 233,864	$ 250,131	$ 310,195
Operating Income (Loss):			
Operating Income (Loss) Excluding Specific Items:			
Electronic Commerce	$ (1,342)	$ (5,490)	$ (20,619)
Investment Services	6,225	8,093	10,910
Software	8,393	14,637	(690)
Corporate	(20,116)	(23,348)	(26,120)
Specific Items:			
Exclusivity Amortization	(2,963)	-	-
In-Process Research and Development	(719)	(2,201)	(6,900)
Charge for Stock Warrants	(32,827)	-	-
Net Gain on Dispositions of Assets	36,173	4,576	-
Total Operating Income (Loss)	$ (7,176)	$ (3,733)	$ (43,419)

Years ended June 30, 1999 and 2000

Revenue in our Electronic Commerce segment increased by 26%, from $169.4 million for the year ended June 30, 1999, to $213.4 million for the year ended June 30, 2000. This increase was primarily due to an increase in subscribers from nearly 3.0 million at June 30, 1999 to over 3.5 million at June 30, 2000. During the quarter ended September 30, 1999, a few of our financial institution customers removed approximately 200,000 subscribers from our system that were either utilizing our low fee maintenance only processing services through proprietary PC-based front ends or that no longer promoted certain legacy financial manager software. Additionally, in the quarter ended December 31, 1999, we assisted our financial institution customers in removing another 200,000 subscribers who were utilizing personal financial management software that was not Year 2000 compliant. The majority of these combined reductions were on older contracts with lower than average associated monthly fees.

To date, we have signed 157 billers to our E-Bill electronic billing product offering, and we now have 93 billers in production that presented approximately 94,000 bills in the month ended June 30, 2000. The number of bills we presented electronically has increased by 52% since the month ended March 31, 2000 and is up significantly from just over 13,000 per month at June 30, 1999. Our acquisition of BlueGill is expected to facilitate our efforts to provide quality billing content, and by simplifying and accelerating the process of taking bills from paper to electronic. We believe that a complete, round trip electronic billing and payment experience for an average of four to ten bills per month per consumer is an important factor in driving subscriber growth. As of June 30, 2000, we have the potential to process an average of four to five bills per month for our existing customer base. When combined with a new transaction based pricing model that we have made available to our largest customers, it will become increasingly more difficult to correlate Electronic Commerce revenue solely to the number of subscribers, with transactions processed becoming an additional indicator. We exited the quarter ended June 30, 2000 processing about 16 million transactions on a monthly basis, compared to about 12 million as of June 30, 1999.

Our operating loss in our Electronic Commerce segment has increased from $5.5 million for the year ended June 30, 1999, to $20.7 million for the year ended June 30, 2000. Last year, in April 1999, we experienced a system error that led some users of our electronic payment service to experience intermittent problems accessing and using the system. As a result of this outage, we recorded charges totaling $2.7 million. Net of this charge, the operating loss in our Electronic Commerce segment would have been $2.8 million in the year ended June 30, 1999. During the year ended June 30, 2000, we invested heavily in the following four areas:

- marketing and price incentives to spur industry growth;
- compressing the time from E-Bill contract execution to live billing;
- improved infrastructure and programs that improve quality and performance; and
- extension of payment offerings through leverage of our existing payment infrastructure.

From an efficiency perspective, our ratio of electronic payments to total payments has improved from 49% at June 30, 1999, to 58% at June 30, 2000. Electronic payments carry a significantly lower variable cost per unit than paper based payments. Additionally, we have seen improvements from the leverage inherent in converting two–thirds of our subscribers from two legacy systems to our Genesis processing system. However, as subscribers sign up for electronic billing and payment offerings through portals and other sponsors that offer free trial periods, we will incur the variable costs associated with processing transactions from these customers with no revenue to offset the costs. In spite of the underlying efficiency improvements, these combined investments will continue to place downward pressure on operating margins into the upcoming fiscal year.

We have recently made several strategic announcements that will further enhance the opportunity to facilitate accelerated market adoption of our electronic billing and payment services. On February 15, 2000, we announced plans to acquire MSFDC L.L.C (TransPoint), a joint venture involving Microsoft, First Data Corporation, and Citibank, NA, and we closed the acquisition in September 2000. With this acquisition, we become the preferred provider of electronic billing an payment services to customers of Microsoft offered through its MSN and Money Central offerings, with guaranteed revenue of $120 million over the next five years. Additionally, we received $60 million of guaranteed revenue and/or costs savings opportunities through First Data Corporation in the transaction. On April 5, 2000, we announced a strategic agreement with the U.S. Postal Service whereby we will become the provider of electronic billing and payment services through its Internet portal www.usps.com. Finally, on April 27, 2000 we announced a strategic agreement with Bank of America, the largest bank in the U.S., to offer electronic billing and payment services to its 30 million customer base. This 10 year agreement comes with annual revenue guarantees of $50 million, and Bank of America has agreed to invest $45 million to promote the adoption of our electronic billing and payment services by Bank of America's customers. The agreement is expected to close early in the quarter ended Decmber 31, 2000. While there are no guarantees as to the timing or extent of accelerated adoption of electronic billing and payment services, we believe that upon completion of the aforementioned transactions, we are better positioned to maintain our market leadership throughout the accelerated growth cycle when it occurs.

Revenue in our Investment Services segment increased by 39%, from $39.3 million for the year ended June 30, 1999, to $54.5 million for the year ended June 30, 2000. On a pro forma basis, assuming that Mobius Group had been in place for a full year in fiscal 1999, revenue increased by 25%, from $43.9 million for the year ended June 30, 1999, to $54.8 million for the year ended June 30, 2000. Growth in pro forma revenue is primarily the result of an increase in portfolios managed from approximately 715,000 at June 30, 1999 to over 950,000 at June 30, 2000. A significant portion of portfolio growth over the past year has occurred in retail versus institutional accounts that carry a lower unit price. In October 1999, we launched our new M-Plan product from Mobius Group. Consultants, plan sponsors, investment managers and financial planners use M-Plan for integrating retirement, capital needs, tax, education and real estate planning needs for their customers. Additionally, in March 2000, we released revisions to our M-Search product from Mobius Group that allows Internet based data collection capabilities to the product which will make data collection on money manager returns and asset allocations more timely.

Reported operating income in our Investment Services segment increased from $8.1 million for the year ended June 30, 1999, to $10.9 million for the year ended June 30, 2000. On a pro forma basis, adjusting for the Mobius Group acquisition, operating income increased from $8.6 million for the year ended June 30, 1999, to $10.9 million for the year ended June 30, 2000. At mid-year we reduced the useful lives on three of the intangible assets resulting from the Mobius Group acquisition, and the accelerated amortization had a pre-tax impact on earnings of approximately $0.4 million for the year. Additionally, as indicated earlier, much of the portfolio growth over the past year has occurred in retail versus institutional accounts that carry a lower unit price, which places downward pressure on margins as the cost to process this business is not proportionally lower.

Reported revenue in our Software segment increased by 2%, from $41.4 million for the year ended June 30, 1999, to $42.0 million for the year ended June 30, 2000. On a pro forma basis, net of the impact of divestitures in fiscal 1999 and the acquisition of BlueGill in fiscal 2000, revenue increased by 1%, from $39.6 million for the year ended June 30, 1999, to $40.1 million for the year ended June 30, 2000. The revenue results were expected, given purchasing moratoriums by customers concerned with Year 2000 issues through calendar year 1999 and into calendar year 2000.

Reported operating income in our Software segment declined from income of $14.7 million for the year ended June 30, 1999, to a loss of $0.7 million for the year ended June 30, 2000. On a pro forma basis, net of the impact of divestitures in fiscal 1999 and the acquisition of BlueGill in fiscal 2000, operating income declined from $16.2 million for the year ended June 30, 1999, to $12.4 million for the year ended June 30, 2000. The decrease in pro forma operating income reflects investments in new initiatives such as the recent launch of missingmoney.com, a state-sponsored Internet site developed with the National Association of Unclaimed Property Administrators designed to enable individuals to find and claim money owed to them from non-refunded deposits, unclaimed securities and other accounts held by states. Also, incremental resources have been assigned to our new automated clearinghouse alliance services program that carries a profit margin that is inherently lower than that of our traditional product offerings in this area.

The Corporate segment represents charges for legal, human resources, accounting and finance, and various other unallocated overhead charges. Our corporate segment operating loss increased from $23.3 million, or 9.3% of total revenue for the year ended June 30, 1999, to $26.1 million, or 8.4% of total revenue for the year ended June 30, 2000. During the year ended June 30, 1999 we incurred $1.9 million of non-recurring costs related to a terminated follow-on stock offering, the creation of a special-purpose employee medical benefits management subsidiary, and the sale of a building in Columbus, Ohio. Net of these one-time charges, our operating loss for the year ended June 30, 1999 would have been $21.4 million, or 8.6% of total revenue. Our adjusted corporate costs have remained fairly consistent as a percentage of revenue. As subscriber price promotions allowing for free trial periods begin to expire, and related customers begin paying for various related electronic billing and payment services, we believe our corporate costs will begin to decline as a percentage of revenue as we regain the leverage inherent in our normalized business model.

Years Ended June 30, 1998 and 1999

Revenue in our Electronic Commerce segment increased by 23%, from $138.0 million for the year ended June 30, 1998, to $169.4 million for the year ended June 30, 1999. This increase was primarily due to an increase in subscribers from approximately 2.4 million at June 30, 1998, to approximately 3.0 million at June 30, 1999.

Our operating loss in our Electronic Commerce segment increased from $1.3 million for the year ended June 30, 1998, to $5.5 million for the year ended June 30, 1999. This increase in our operating loss was due to the temporary slowing of revenue growth caused by financial institutions converting their PC-based systems to our new web-based platform. At the same time, we continued to invest in our payment processing infrastructure to enhance our future quality and efficiency in anticipation of the revenue growth expected when financial institutions complete their technology conversions and refocus their marketing efforts on new subscriber growth. These investments included additional customer care resources geared toward improved quality and significant E-Bill implementation costs, which were not offset by additional revenue during the year ended June 30, 1999.

As of June 30, 1999, we had activated 29 billers for our E-Bill product offering, had an additional 21 billers actively engaged in the implementation process and had another 14 awaiting implementation. As we continue to activate additional billers for our complete electronic billing and payment offering, we expect the number of users to increase, which should drive increased revenue and operating income growth in the future.

In January 1999, we announced a distribution agreement with Yahoo! designed to promote on-line billing, payment and electronic banking to Internet users. Our investments related to this agreement placed downward pressure on margins in the second half of fiscal 1999 as we prepared for up to one million additional subscribers to for our services. These investments allowed us to grow our professional services and customer care staff to support greater deployment of electronic billing and payment services by billers, as well as expand our sales and marketing and related training activities.

In April 1999, we experienced a system error that led some users of our electronic payment service to experience intermittent problems accessing and using the system. As a result of this outage, we recorded charges totaling $2.7 million. Net of this charge, the operating loss in our Electronic Commerce segment would have been $2.8 million in the year ended June 30, 1999.

Revenues in our Investment Services segment increased by 32%, from $29.7 million for the year ended June 30, 1998, to $39.3 million for the year ended June 30, 1999. On March 8, 1999, we acquired Mobius Group to augment the product line of this segment. Investment consultants and asset managers now use Mobius Group's M-Vest service to determine the ideal asset allocation for their clients; use M-Search to determine the idea investment manager candidates' use CheckFree APL and APL wrap products to provide investment platform and trading tools; and use either M-Watch or CheckFree APL for their investment oversight and reporting to the end client. Excluding the effects of the acquisition, revenue increased by 26%, from $29.7 million for the year ended June 30, 1998, to $37.4 million for the year ended June 30, 1999. The increase was due primarily to an increase in the number of institutional portfolios managed from approximately 500,000 at June 30, 1998, to approximately 715,000 at June 30, 1999, offset somewhat by an increase in the number of retail brokerage accounts managed which carry a lower unit price.

Operating income in our Investment Services segment increased from $6.2 million for the year ended June 30, 1998, to $8.1 million for the year ended June 30, 1999. Excluding the effects of the acquisition of Mobius Group, operating income increased from $6.2 million for the year ended June 30, 1998, to $8.7 million for the year ended June 30, 1999. This increase was due to the greater number of portfolios managed, offset somewhat by costs of approximately $0.9 million related to the moving of the segment's main office in fiscal 1999.

Revenues in our Software segment declined by 37%, from $66.1 million for the year ended June 30, 1998, to $41.4 million for the year ended June 30, 1999. This decline reflects the impact of the divestiture of several of our software businesses. Excluding the effects of the divestitures, revenue in our Software segment increased 6%, from $37.4 million for the year ended June 30, 1998, to $39.6 million for the year ended June 30, 1999. Despite this increase, our license revenue was lower than anticipated due primarily to purchasing moratoriums imposed by potential customers who deferred new software purchases as a result of addressing their internal Year 2000 issues. This slowdown in license sales was offset by greater maintenance and consulting revenue resulting form prior license sales.

Operating income in our Software segment increased from $8.4 million for the year ended June 30, 1998, to $14.6 million for the year ended June 30, 1999. Excluding the effects of the divestitures, operating income increased from $10.7 million for the year ended June 30, 1998, to $16.4 million for the year ended June 30, 1999. Of the increase in retained business operating income of $5.7 million, $2.2 million was the result of the revenue growth previously described and approximately $2.4 million was a reporting anomaly related to allocated corporate fixed costs in the fiscal 1998 results. Our pro forma operating income in the year ended June 30, 1998 was carrying a full burden of allocated overhead from our Software segment to avoid unreasonably impacting other segment on a restated pro forma basis. When the effects of the allocations are ignored, underlying operating profit margins in our Software segment remained fairly consistent from year to year.

Expenses in our Corporate segment were $20.1 million for the year ended June 30, 1998 and were $23.3 million for the year ended June 30, 1999. The fiscal 1999 results included one-time charges of $0.6 million for the formation of a special–purpose subsidiary created to administer our employee medical benefits program; $0.4 million in real estate charges incurred in the sale of a building in Columbus, Ohio; and $0.9 million in charges incurred in the preparation of a follow-on stock offering that was terminated in June 1998. Net of these one-time charges, our corporate charges remained relatively consistent at 8.6% of total revenue in both years.

Liquidity and Capital Resources

The following table sets forth a summary of cash flow activity and should be referred to in conjunction with statements regarding our liquidity and capital resources:

	Summary of Cash Flows for Year ended June 30,		
	1998	1999	2000
		(In thousands)	
Cash flow provided by (used in) operating activities	$ (11,673)	$ 25,571	$ 21,016
Cash flow provided by (used in) investing activities	12,767	(16,217)	(108,935)
Cash flow provided by (used in) financing activities	3,355	(33,443)	203,547
Net increase (decrease) in cash and cash equivalents	$ 4,449	$ (24,089)	$ 115,628

As of June 30, 2000, we have $184.6 million in cash, cash equivalents and short-term investments on hand. Our balance sheet reflects a current ratio of 3.06 and working capital of $178.8 million. We believe that existing cash, cash equivalents, and investments will be more than sufficient to meet our presently anticipated requirements for the foreseeable future. To the extent that additional capital resources are required, we have access to an untapped $30.0 million line of credit.

For the year ended June 30, 2000, we generated $21.0 million of cash flow from operations. Of this amount, $3.6 million represented net proceeds from trading securities transactions, which GAAP requires us to reflect in cash flow from operations.

From an investing perspective, we used $39.5 million of cash for the purchase of property and software, and capitalized $7.6 million of software development costs. We used $61.0 million for the net purchase of held-to-maturity securities and another $10.0 million in the purchase of common stock. Finally, we received $9.2 million in cash and cash equivalents through the purchase of BlueGill, net of related acquisition costs.

From a financing perspective, we received $166.9 million of net proceeds from the issuance of $172.5 million in 6.5% convertible subordinated notes and another $25.5 million in proceeds from the exercise of common stock warrants and the purchase of our common stock by third parties. We received additional cash of $9.7 million from the exercise of options from our employee stock option plans and $2.9 million from the purchase of stock from our employee stock purchase plan. Finally, we used $1.5 million of cash for principal payments under capital lease obligations.

For the year ended June 30, 1999, we generated $25.6 million of cash flow from operations. Of this amount, $14.3 represented net proceeds from trading securities transactions, which are reflected as operating in nature for accounting purposes.

From an investing perspective, we used $40.4 million of cash for the purchase of property and software, of which approximately $14.9 million was for the purchase of land and a building in Dublin, Ohio and another $6.4 million in leasehold improvements to ready the building for occupancy. The remaining $19.1 million was used for computer equipment, software and leasehold improvements in support of initiatives to grow the business and improve quality. We received $18.4 million from the net sale of the various software business divestitures during the year and the sale of a building in Columbus, Ohio and $14.9 million from the repayment of a note receivable established in fiscal 1998 related to the purchase of the Dublin, Ohio facility. We capitalized $8.0 million in software development costs related to new business initiatives in all three of our business segments. Additionally, we spent approximately $0.2 million in cash in connection with the acquisition of Mobius Group, purchased $1.9 million in held-to-maturity securities and received $1.0 million in proceeds from the sale of held-to-maturity securities.

From a financing perspective, we used $31.3 million in the purchase of approximately 4.7 million shares of treasury stock for an average price of approximately $6.65 per share. We used $3.3 million of cash for principal payments under capital leases and another $3.6 million to fund an escrow account to release our obligation for bonds with the Department of Economic Development of the State of Ohio to facilitate the sale of land an a building in Columbus, Ohio. We received $2.9 million in proceeds from the exercise of options under the employee stock option plan and $1.9 million from the purchase of shares under the employee stock purchase plan.

For the year ended June 30, 1998, we used $11.7 million of cash flow in operating activities. During this year, $24.5 million in net investments in trading securities were reflected as cash used in operations. From an investing perspective, we generated $54.9 million of cash from the sale of various software businesses, $24.0 million from sales and maturities of available-for-sale investments, $8.9 million from receipt of a purchase price adjustment related to our Intuit Services Corporation acquisition and $0.3 million from the sales of other assets. Investing receipts were offset by $27.9 million in investment in property additions, primarily for computer and operational equipment and facilities related to completion of the Genesis platform, $20.3 million in the purchase of investments, $14.9 million of investment in a note receivable in conjunction with the purchase of a building in Dublin, Ohio, $10.0 million as final payment on the purchase of Intuit Services Corporation; payment of $1.0 million for the purchase of Advanced Mortgage Technologies, Inc., and $0.7 million in capitalization of software development costs. From a financing perspective, $5.4 million of cash was provided by stock option exercises under our employee stock option plans and stock purchases under our employee stock purchase plan, which was offset by payments of $1.1 million in satisfaction of an outstanding note payable and $0.9 million in capital lease obligations.

Inflation

We believe the effects of inflation have not had a significant impact on our results of operations.

Recent Accounting Pronouncements

In the quarter ended September 30, 1999, we adopted Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The Statement distinguishes accounting for costs of computer software developed or obtained for internal use from guidance under FAS 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." The adoption of SOP 98-1 did not result in a material impact on reported results.

In 1999, the SEC issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." The SAB provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. Although SAB No. 101 does not change any of the accounting profession's existing rules on revenue recognition, it draws upon existing rules and explains how the SEC staff applies these rules, by analogy, to other transactions that existing rules do not specifically address. SAB No. 101, as amended by SAB No. 101B, becomes effective for the fourth quarter of our fiscal year 2001. We are in the process of assessing the impact of SAB No. 101 on our financial statements; however, we do not expect the adoption of SAB No. 101 will have a material impact on results of operations or financial position.

In June 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," which requires that all derivative financial instruments be recognized as either assets or liabilities in the balance sheet. In June 1999, the FASB issued SFAS 137, "Accounting for Derivative Instruments and Hedging Activities- Deferral of the Effective Date of FASB Statement No. 133", which defers the effective date of SFAS 133 until the fiscal quarters of all fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", which amends the accounting and reporting standards of SFAS 133 for certain derivative instruments and certain hedging activities.

SFAS 133, as amended, requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

The Company's Investment Policy currently prohibits the use of derivatives for trading or hedging purposes. Additionally, the Company completed a review of its contracts and determined that they contained no "imbedded derivatives" that require separate reporting and disclosure under SFAS 133, as amended. As such, the adoption of SFAS 133, as amended, on July 1, 2000 will not have a material impact on results of operations or other comprehensive income.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

Except for the historical information contained herein, the matters discussed in our Annual Report include certain forward-looking statements within the meaning of Section 27A of the Securities Act, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding our and management's intent, belief and expectations, such as statements concerning our future profitability, and our operating and growth strategy. Investors are cautioned that all forward-looking statements involve risks and uncertainties including, without limitation, the factors set forth under the caption "Business – Business Risks" in the Annual Report on Form 10-K for the year ended June 30, 2000 and other factors detailed from time to time in our filings with the Securities and Exchange Commission. One or more of these factors have affected, and in the future could affect, our businesses and financial results in the future and could cause actual results to differ materially from plans and projections. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included in this Annual

Report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as representations by us or any other person that our objectives and plans will be achieved. All forward-looking statements made in this Annual Report are based on information presently available to our management. We assume no obligation to update any forward-looking statements.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
CheckFree Corporation and Subsidiaries:

We have audited the accompanying consolidated balance sheets of CheckFree Corporation (the "Company") and its subsidiaries as of June 30, 1999 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended June 30, 1998, 1999, and 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries at June 30, 1999 and 2000, and the results of their operations and their cash flows for the years ended June 30, 1998, 1999, and 2000 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Atlanta, Georgia
August 7, 2000

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALLANCE SHEETS
June 30, 1999 and 2000

	1999	2000
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,446	$ 128,074
Investments	10,266	56,548
Accounts receivable, net	45,660	58,308
Prepaid expenses and other assets	7,800	12,813
Deferred income taxes	6,513	9,733
Total current assets	82,685	265,476
PROPERTY AND EQUIPMENT, Net	69,823	93,214
OTHER ASSETS:		
Capitalized software, net	20,059	37,189
Goodwill, net	32,280	213,305
Other intangible assets, net	13,595	37,975
Investments	1,875	23,003
Deferred income taxes	21,920	29,248
Other noncurrent assets	10,524	13,704
Total other assets	100,253	354,424
	$252,761	$ 713,114
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 9,634	$ 10,158
Accrued liabilities	26,971	43,958
Current portion of long-term obligations	1,640	5,955
Deferred revenue	20,195	26,644
Total current liabilities	58,440	86,715
ACCRUED RENT AND OTHER	3,536	7,269
OBLIGATIONS UNDER CAPITAL LEASES- Less current portion	3,882	736
CONVERTIBLE SUBORDINATED NOTES	-	172,500
COMMITMENTS (Note 20)		
STOCKHOLDERS' EQUITY:		
Preferred stock- 15,000,000 authorized shares, $.01 par value; no amounts issued or outstanding	-	-
Common stock- 150,000,000 authorized shares, $.01 par value; issued 57,305,659 and 63,957,859 shares, respectively; outstanding 51,756,278 and 58,414,035 shares, respectively	518	584
Additional paid-in-capital	480,385	771,892
Less:		
Accumulated deficit	(294,000)	(326,320)
Unearned compensation	-	(262)
Total stockholders' equity	186,903	445,894
	$252,761	$ 713,114

See notes to consolidated financial statements.

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended June 30, 1998	1999	2000
	(In thousands, except share data)		
REVENUES:			
Processing and servicing	$ 159,255	$ 201,059	$ 261,621
License fees	28,952	15,975	16,818
Maintenance fees	25,848	17,746	18,752
Other	19,809	15,351	13,004
Total revenues	233,864	250,131	310,195
EXPENSES:			
Cost of processing, servicing and support	129,924	146,704	182,540
Research and development	36,265	21,085	35,631
Sales and marketing	28,839	32,354	44,782
General and administrative	20,677	31,466	40,931
Depreciation and amortization	24,999	24,630	42,830
In-process research and development	719	2,201	6,900
Charge for stock warrants	32,827	-	-
Exclusivity amortization	2,963	-	-
Total expenses	277,213	258,440	353,614
Net gain on dispositions of assets	36,173	4,576	-
LOSS FROM OPERATIONS	(7,176)	(3,733)	(43,419)
OTHER:			
Interest income	3,464	2,799	7,689
Interest expense	(632)	(618)	(8,027)
LOSS BEFORE INCOME TAXES	(4,344)	(1,552)	(43,757)
INCOME TAX BENEFIT	(641)	(12,009)	(11,437)
NET INCOME (LOSS)	$ (3,703)	$ 10,457	$ (32,320)
BASIC EARNINGS (LOSS) PER SHARE:			
Net income (loss) per common share	$ (0.07)	$ 0.20	$ (0.61)
Equivalent number of shares	55,086,742	52,444,375	53,367,339
DILUTED EARNINGS (LOSS) PER SHARE:			
Net income (loss) per common share	$ (0.07)	$ 0.18	$ (0.61)
Equivalent number of shares	55,086,742	56,529,165	53,367,339

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS

	Number of Shares of Common Stock	Common Stock At Par	Additional Paid-In Capital	Number of Shares of Treasury Stock
		(In thousands, except share data)		
BALANCE- JUNE 30, 1997	55,546,321	$ 555	$ 454,850	(1,041,552)
Net loss	-	-	-	-
Stock options exercised	708,661	8	2,204	-
Employee stock purchases	109,857	1	1,572	-
401(k) match	-	-	-	78,257
Warrants issued	-	-	32,827	-
Tax benefit associated with exercise of stock options	-	-	656	-
BALANCE- JUNE 30, 1998	56,364,839	564	492,109	(963,295)
Net income				
Stock options exercised	354,758	3	1,605	-
Employee stock purchases	48,748	1	968	48,631
401(k) match	-	-	-	74,981
Treasury stock acquired	-	-	-	(4,709,698)
Treasury stock retired	(5,549,381)	(55)	(33,610)	5,549,381
Issuance of common stock pursuant to acquisition	537,314	5	17,995	-
Tax benefit associated with exercise of stock options	-	-	1,318	-
BALANCE- JUNE 30, 1999	51,756,278	518	480,385	-
Net loss	-			
Stock options and warrants exercised	1,795,785	18	35,224	-
Employee stock purchases	99,010	1	2,285	-
401(k) match	36,226	-	1,059	-
Issuance of common stock pursuant to acquisition	4,713,736	47	239,447	-
Issuance of restricted stock	13,000	-	333	-
Amortization of unearned compensation	-	-	-	-
Tax benefit associated with exercise of stock options and warrants	-	-	13,159	-
BALANCE- JUNE 30, 2000	58,414,035	$ 584	$ 771,892	-

See notes to consolidated financial statements.

OF STOCKHOLDERS' EQUITY

	Treasury Stock At Cost	Unearned Compensation	Accumulated Deficit	Total Stockholders' Equity
		(In thousands, except share data)		
	$ (6,007)	$ -	$ (300,754)	$ 148,644
	-	-	(3,703)	(3,703)
	(47)	-	-	2,165
	-	-	-	1,573
	1,692	-	-	1,692
	-	-	-	32,827
	-	-	-	656
	(4,362)		(304,457)	183,854
			10,457	10,457
	-	-	-	1,608
	1,070	-	-	2,039
	963	-	-	963
	(31,336)	-	-	(31,336)
	33,665	-	-	-
	-	-	-	18,000
	-	-	-	1,318
	-	-	(294,000)	186,903
			(32,320)	(32,320)
	-	-	-	35,242
	-	-	-	2,286
	-	-	-	1,059
	-	-	-	239,494
	-	(333)	-	-
	-	71	-	71
	-	-	-	13,159
	$ -	$ (262)	$ (326,320)	$ 445,894

CHECKFREE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30,		
	1998	1999	2000
(In thousands)			
OPERATING ACTIVITIES:			
Net income (loss)	$ (3,703)	$ 10,457	$ (32,320)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Write off of in-process research and development	719	2,201	6,900
Issuance of warrants	32,827	-	-
Exclusivity amortization	2,963	-	-
Depreciation and amortization	24,999	24,630	42,830
Deferred income tax provision	(5,499)	854	(11,437)
Net gain on dispositions of assets	(36,173)	(4,576)	-
Purchases of investments- Trading	(28,799)	(10,416)	(19,002)
Proceeds from maturities and sales of investments, net- Trading	4,267	24,683	22,608
Change in certain assets and liabilities (net of acquisitions and dispositions):			
Accounts receivable	(5,095)	(6,976)	(14,499)
Prepaid expenses and other	(1,834)	1,434	644
Accounts payable	1,492	988	(4,153)
Accrued liabilities	(568)	(2,194)	20,259
Deferred revenue	239	1,739	9,188
Income tax accounts	2,492	(17,253)	(2)
Net cash provided by (used in) operating activities	(11,673)	25,571	21,016
INVESTING ACTIVITIES:			
Purchase of property and software	(27,939)	(40,444)	(39,495)
Proceeds from sale of assets	54,990	18,435	-
Purchase of note receivable	(14,882)	-	-
Proceeds from repayment of note receivable	-	14,882	-
Proceeds from purchase price adjustment	8,889	-	-
Capitalization of software development costs	(731)	(8,031)	(7,576)
Purchase of business, net of cash acquired	(11,000)	(190)	9,152
Purchases of investments- Held to maturity	(1,006)	(1,875)	(70,796)
Proceeds from maturities and sales of investments- Held to maturity	-	1,006	9,780
Purchase of other investments	-	-	(10,000)
Purchases of investments- Available for sale	(19,311)	-	-
Proceeds from maturities and sales of investments- Available for sale	23,757	-	-
Net cash provided by (used in) investing activities	12,767	(16,217)	(108,935)
FINANCING ACTIVITIES:			
Repayment of notes payable and other debt extinguishment	(1,144)	-	-
Principal payments under capital lease obligations	(931)	(3,327)	(1,495)
Escrow deposit associated with capital lease obligation	-	(3,637)	-
Proceeds from stock options exercised	2,165	2,926	9,721
Proceeds from employee stock purchase plan	1,573	1,931	2,903
Proceeds from employee 401(k)plan	1,692	-	-
Purchase of treasury stock	-	(31,336)	-
Proceeds from sale of stock and exercise of warrants	-	-	25,515
Proceeds from issuance of convertible subordinated notes	-	-	166,903
Net cash provided by (used in) financing activities	3,355	(33,443)	203,547
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,449	(24,089)	115,628
CASH AND CASH EQUIVALENTS:			
Beginning of period	32,086	36,535	12,446
End of period	$ 36,535	$ 12,446	$ 128,074

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – CheckFree Corporation (the "Company") is the parent company of CheckFree Services Corporation ("CFSC"), the principal operating company of the business. In April, 2000, CFSC changed its name from CheckFree Corporation to CheckFree Services Corporation. Following that change, in August, 2000, CheckFree Holdings Corporation changed its name to CheckFree Corporation. CFSC was organized in 1981 and is a leading provider of transaction processing services, software and related products to financial institutions and businesses and their customers throughout the United States. See Note 18 for a description of the Company's business segments. Following a number of acquisitions and divestitures, CFSC reorganized its corporate structure on December 22, 1997. In connection with the reorganization, holders of common stock ("Common Stock") of CFSC became holders of an identical number of shares of Common Stock of the Company. The restructuring was effected by a merger conducted pursuant to Section 251(g) of the Delaware General Corporation Law, which provides for the formation of a holding company structure without a vote of the stockholders of the Company.

Principles of Consolidation – The accompanying consolidated financial statements include the results of operations of the Company, its wholly-owned subsidiaries, and CheckFree Management Corporation, of which the Company is the majority owner. All significant intercompany transactions have been eliminated.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Processing Agreements – The Company has agreements with transaction processors to provide origination and settlement services for the Company. Under the agreements, the Company must fund service fees and returned transactions when presented. These agreements expire at various dates.

Transaction Processing – In connection with the timing of the Company's financial transaction processing, the Company is exposed to credit risk in the event of nonperformance by other parties, such as returns and chargebacks. The Company utilizes credit analysis and other controls to manage its credit risk exposure. The Company also maintains a reserve for future returns and chargebacks.

Cash and Cash Equivalents – The Company considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

Investments – The Company classifies its investments as available-for-sale, trading or held-to-maturity securities in accordance with Statement of Financial Accounting Standards ("SFAS") 115, "Accounting for Certain Investments in Debt and Equity Securities". Investments classified as available-for-sale are carried at fair value, with unrealized holding gains and losses reported as a separate component of stockholders' equity. Trading securities are carried at market value and unrealized holding gains and losses are included in income. Held-to-maturity securities are carried at amortized cost.

Property and Equipment – Property and equipment are stated at cost. Property and equipment are depreciated using the straight-line method over the estimated useful lives as follows: land improvements, building and building improvements, 15 to 30 years; computer equipment, software, and furniture, 3 to 7 years. Equipment under capital leases are amortized using the straight-line method over the lesser of their estimated useful lives or the terms of the leases. Leasehold improvements are amortized over the lesser of the estimated useful lives or remaining lease periods.

Capitalized Software Costs – On July 1, 1999, the Company adopted Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The Statement distinguishes accounting for costs of computer software developed or obtained for internal use from guidance under SFAS 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." The Company determines whether software costs fall under the provisions of SFAS 86 or SOP 98-1 and accounts for them as follows:

- *SFAS 86* – Software development costs incurred prior to the establishment of technological feasibility are expensed as incurred. Software development costs incurred after the technological feasibility of the subject software product has been established are capitalized in accordance with SFAS 86. Capitalized software development costs are amortized on a product-by-product basis using either the estimated economic life of the product on a straight-line basis over three to five years, or the ratio of current year gross product revenue to current and anticipated future gross product revenue, whichever is greater. Unamortized software development costs in excess of estimated future net revenues from a particular product are written down to estimated net realizable value.

- *SOP 98*-1– Software costs incurred in the preliminary project stage are expensed as incurred. Software costs incurred after the preliminary project stage is complete, management has committed to the project, and it is probable the software will be used to perform the function intended are capitalized in accordance with SOP 98-1. Capitalized software costs are amortized on a product-by-product basis using the estimated economic life of the product on a straight-line basis over three to five years. Capitalized software costs not expected to be completed and placed in service are written down to estimated net realizable value.

Amortization of software costs totaled $5,198,000, $2,567,000 and $4,589,000, for the years ended June 30, 1998, 1999 and 2000, respectively.

Intangible Assets – The costs of identified intangible assets are amortized on a straight-line basis over periods from 8 months to 10 years. Goodwill is amortized on a straight-line basis over 5 to 10 years. The company periodically reviews goodwill to evaluate whether changes have occurred that would suggest that goodwill may be impaired based on the estimated undiscounted cash flows of the assets to which goodwill relates over the remaining amortization period. If this review indicates that the remaining useful life of goodwill requires revision or that the goodwill is not recoverable, the carrying amount of the goodwill is reduced by the estimated shortfall of cash flows on a discounted basis. Other intangible assets are also evaluated periodically for impairment using undiscounted cash flows over the remaining useful life of the respective asset. If this review indicates that the remaining useful life of the respective intangible asset requires revision, the carrying amount of the asset is reduced by the estimated shortfall of cash flows on a discounted basis.

Capital Stock – The Company is authorized to issue up to 150,000,000 shares of $.01 par value Common Stock. In addition, the Company is authorized to issue up to 15,000,000 shares of $.01 par value preferred stock in one or more series and to establish such relative voting, dividend, redemption, liquidation, conversion and other powers, preferences, rights, qualifications, limitations and restrictions as the Board of Directors may determine without further stockholder approval. No preferred shares have been issued.

Basic and Diluted Earnings (Loss) Per Share – The Company reports Basic and Diluted Earnings (Loss) Per Share in accordance with the provisions of SFAS 128 "Earnings Per Share". Basic earnings (loss) per common share is determined by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding. Diluted per-common-share amounts assume the issuance of common stock for all potentially dilutive equivalent shares outstanding.

Impairment of Long-Lived Assets – In accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company periodically assesses the likelihood of recovering the cost of long-lived assets based on its expectations of future profitability and undiscounted cash flows of the related business operations. These factors, along with management's plans with respect to the operations, are considered in assessing the recoverability of property, equipment and purchased intangibles. During 1998, in conjunction with the Company's platform integration efforts referred to as project Genesis, the Company consolidated three processing centers from Chicago, Illinois, Austin, Texas, and Columbus, Ohio, into one processing center located in Norcross, Georgia. As a result of this consolidation and a physical inventory of fixed assets at the related business units, all identified assets, totaling $4.0 million, which were determined to have no alternative use or value were written off.

Comprehensive Income – On July 1, 1998, the Company adopted SFAS 130, "Reporting Comprehensive Income." The Statement requires disclosure of total non-shareowner changes in equity and its components. Total non-shareowner changes in equity includes all changes in equity during a period except those resulting from investments by and distributions to shareowners. The only component of other comprehensive income applicable to the Company would be unrealized holding gains or losses on the Company's available-for-sale securities. There were no available-for-sale securities held during the years ended June 30, 1999 and 2000, and the carrying value of available-for-sale securities held during the year ended June 30, 1998 approximated market value. As a result, there were no reported unrealized gains or losses on available-for-sale securities during the years ending June 30, 1998, 1999 and 2000.

Business Segments – The Company reports information about its business segments in accordance with SFAS 131, "Disclosures about Segments of an Enterprise and Related Information". The Statement defines how operating segments are determined and requires disclosure of certain financial and descriptive information about a company's operating segments. See Note 18 for the Company's segment information.

Foreign Currency Translation – Effective with the acquisition of BlueGill Technologies, Inc. on April 28, 2000, certain wholly-owned subsidiaries of the Company have foreign operations. The financial statements of these foreign subsidiaries are measured using the U.S. dollar as the functional currency. Assets, liabilities, revenues, and expenses are remeasured using current and historical exchange rates in accordance with SFAS No. 52, "Foreign Currency Translation". Transaction gains and losses resulting from the remeasurement process are included the determination of net income. The net transaction loss for the period from April 28, 2000 to June 30, 2000 was not significant.

Recent Accounting Pronouncements – In June 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," which requires that all derivative financial instruments be recognized as either assets or liabilities in the balance sheet. In June 1999, the FASB issued SFAS 137, "Accounting for Derivative Instruments and Hedging Activities- Deferral of the Effective Date of FASB Statement No. 133", which defers the effective date of SFAS 133 until the fiscal quarters of all fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", which amends the accounting and reporting standards of SFAS 133 for certain derivative instruments and certain hedging activities.

SFAS 133, as amended, requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

The Company's Investment Policy currently prohibits the use of derivatives for trading or hedging purposes. Additionally, the Company completed a review of its contracts and determined that they contained no "imbedded derivatives" that require separate reporting and disclosure under SFAS 133, as amended. As such, the adoption of SFAS 133, as amended, on July 1, 2000 will not have a material impact on results of operations or other comprehensive income.

In 1999, the SEC issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." The SAB provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. Although SAB No. 101 does not change any of the accounting profession's existing rules on revenue recognition, it draws upon existing rules and explains how the SEC staff applies these rules, by analogy, to other transactions that existing rules do not specifically address. SAB No. 101, as amended by SAB No. 101B, becomes effective for the fourth quarter of our fiscal year 2001. The Company is in the process of assessing the impact of SAB No. 101 on its financial statements; however, the adoption of SAB No. 101 is not expected to have a material impact on results of operations or financial position.

Reclassifications – Certain amounts in the prior years' financial statements have been reclassified to conform to the 2000 presentation.

Revenue Recognition

- *Processing and Servicing* – Processing and servicing revenues include revenues from transaction processing, electronic funds transfer and monthly service fees on consumer funds transfer services. The Company recognizes revenue when the services are performed.

  As part of processing certain types of transactions, the Company earns interest from the time money is collected from its customers until the time payment is made to the applicable merchants. These revenues, which are generated from trust account balances not included on the Company's balance sheet, are included in processing and servicing and totaled $9,676,000, $11,846,000 and $21,485,000 for the years ended June 30, 1998, 1999 and 2000, respectively.

- *License Fees* – The Company recognizes revenue on software transactions in accordance with SOP 97-2, "Software Revenue Recognition". In accordance with the provisions of SOP 97-2, the Company recognizes revenue from software license agreements when there is persuasive evidence that an arrangement exists, the fee is fixed and determinable, collectibility is probable and the software has been shipped, provided that no significant obligation remains under the contract.

- *Maintenance Fees* – Maintenance fee revenue is recognized ratably over the term of the related contractual support period, generally 12 months.

- *Other* - Other revenue consists primarily of consulting and training services. Consulting revenue is recognized principally on a percentage-of-completion basis and training revenue is recognized upon delivery of the related service. Estimated losses, if any, on contracts are provided for when probable. Estimated loss provisions are based on excess costs over the revenues earned from the contract. Credit losses, if any, are contemplated in the establishment of our allowance for doubtful accounts.

Expense Classification

- *Processing, Servicing and Support* – Processing, servicing and support costs consist primarily of data processing costs, customer care and technical support, and third party transaction fees, which consist primarily of ACH transaction fees.

- *Research and Development* – Research and development expenses consist primarily of salaries and consulting fees paid to software engineers and business development personnel, and are reported net of applicable capitalized development costs.

- *Sales and Marketing* – Sales and marketing expenses consist primarily of salaries and commissions of sales employees, public relations and advertising costs, customer acquisition fees and royalties paid to distribution partners.

- *General and Administrative* – General and administrative expenses consist primarily of salaries for administrative, executive, finance, and human resource employees.

- *Depreciation and Amortization* – Depreciation and amortization on capitalized assets is recorded on a straight-line basis over the appropriate useful lives.

- *In-process Research and Development* – In-process research and development consists of charges resulting from acquisitions whereby the purchase price allocated to in-process software development was based on the determination that in-process research and development had no alternative future use after taking into consideration the potential for usage of the software in different products, resale of the software, or other internal use.

- *Charge for Stock Warrants* – Charge for stock warrants consists of noncash charges for vested warrants issued to third parties under agreements whereby issued warrants vest upon achievement of certain strategic objectives.

- *Exclusivity Amortization* – Exclusivity amortization consists of the amortization of an intangible asset established in conjunction with a marketing agreement with a strategic partner whereby the Company retains certain exclusive rights to bill payment processing through the partner's financial management software over a specific period of time.

2. ACQUISITIONS AND DISPOSITIONS

BlueGill

On April 28, 2000, the Company acquired BlueGill Technologies, Inc. ("BlueGill") for a total of $239.9 million, consisting of 4,713,736 shares of common stock valued at $221.5 million, the issuance of 637,746 employee stock options valued at $18.5 million and $0.6 million of acquisition costs less $0.7 million of cash received for the release of shares placed in escrow per the merger agreement. The acquisition was treated as a purchase for accounting purposes, and, accordingly, the assets and liabilities were recorded based on their fair market values at the date of the acquisition. The values ascribed to acquired intangible assets and their respective useful lives are as follows:

	Intangible Asset (In thousands)	Useful Life
Goodwill	$ 191,072	5.0 yrs
Tradename	15,100	1.0 yr
Existing product technology	13,700	3.7 yrs
Customer list	10,600	5.0 yrs
Workforce in place	2,600	3.0 yrs
Covenants not to compete	1,200	1.0 yr

Amortization of intangible assets is on a straight-line basis over the assets' respective useful life. BlueGill's operations are included in the consolidated statements of operations from the date of acquisition. At the acquisition date, BlueGill had five general technologies that had not demonstrated technological or commercial feasibility. They included print and extraction technology, data management engine technology, API technology, Web Applications and payment or OFX technology. The in-process technology has no alternative use in the event that the products do not prove to be feasible. These development efforts fall within the definition of In-Process Research and Development ("IPR&D") contained in SFAS 2.

Print and extraction technology. Print and extraction technology allows for the extraction and print parsing of a biller's legacy billing information through to BlueGill's products. The following features of the print and extraction technology are under development:

- SmartXpress 3.0.0 that comprises updates to accommodate core changes to BlueGill's DME 2.2.0;
- Record Data Loader, which is an input module that allows for Record Data Type management by converting flat file data into XML-s for storage in the DME.

Data Management Engine Technology. The DME technology allows for archiving of transactions and linkage of data to the necessary environment within the BlueGill network. The DME is the main translator of input data to our output data. The following features are under development:

- Xerox Metacode Support, which is Xerox print support on the AIX, Solaris and HP-UX platforms;
- AFP to PDF performance, which provides three time improvement in the throughput of data through the DME; and
- MVS Port (OS/390), which ports the source code to the MVS platform.

APIs. The API technology encompasses knowledge engineering procedures and expert system analysis, design and development. The API technology works in between the print and extraction and parsing modules and the web applications or templates. The API "surrounds" the DME as its interface to these other technologies. The following features are under development:

- BlueGill Engine 3.0.0 – Pure JAVA Front End Interface, which provides a pure JAVA version of the public API set;
- BlueGill Engine 4.0.0 – Pure JAVA Back End Interface, which provides a pure JAVA version of the data base engine; and
- CheckFree E-Bill 3.1 Format Support, which provides batch mode support for the CheckFree Services Corporation E-Bill 3.1 format.

Web Applications. The web application technologies help in the design of industry specific templates for electronic billing and statement presentation. The following features are under development:

- i-Insurance Template for the insurance industry billing statement templates; and
- Market Direct 2.0, which provides one-to-one marketing capabilities with end users.

Payments or OFX. The payments or OFX technology will allow for bill publishing services to be integrated with the i-Series products and bill consolidators. The following features are under development:

- OFX Bill Publisher Server, which is the core OFX engine integrated with the i-Series engine support and Bill Publisher component to link to consolidators; and
- Payment Infrastructure, which is the underpinnings for interfacing with various payment solutions (e.g. ACH, PaymenTech, Cybercash).

The following table presents information regarding the status of various in-process research and development projects acquired in connection with the BlueGill acquisition:

	Estimated Stage of Completion	Estimated Completion Date	Expected Cost to Complete	Valuation
			(In thousands)	
Print / Extraction	38%	December 2000	$ 748	$ 1,900
Data Management Engine	19%	November 2000	110	1,300
APIs	46%	November 2000	703	2,300
Web Applications	50%	July 2000	183	1,400
Payments / OFX	10%	December 2000	333	0
Total			$ 2,077	$ 6,900

The method used to allocate the purchase consideration to IPRD was the modified income approach. Under the income approach, fair value reflects the present value of the projected free cash flows that will be generated by the IPRD projects and that is attributable to the acquired technology, if successfully completed. The modified income approach takes the income approach, modified to include the following factors:

- analysis of the stage of completion of each project;
- exclusion of value related to research and development yet-to-be completed as part of the on-going IPRD projects; and
- the contribution of existing technologies and applications.

The projected revenues used in the income approach are based upon the incremental revenues associated with a portion of the project related to BlueGill's technology likely to be generated upon completion of the project and the beginning of commercial sales, as estimated by management. The projections assume that the projects will be successful and the project's development and commercialization are as set forth by management. The discount rate used in this analysis is an after tax rate of 25%.

Certain risks and uncertainties are associated with the completion of the development with a reasonable projected period of time. These risks include:

- *Not Technologically Feasible.* The acquired IPRD had not demonstrated technological or commercial feasibility as of the acquisition date for BlueGill. Significant risks exist because BlueGill is unsure of the obstacles it will encounter in the form of market acceptance, time and cost necessary to produce a technologically feasible product. SFAS No. 2 does not specifically require an analysis of the development effort expended relative to an acquisition date. It is reasonable to assume, however, that an IPRD project would require a significant amount of time and cost in order to modify for the Company's use in the marketplace. Should the proposed technology fail to become viable, it is unlikely that the Company would be able to realize any value from the sale of the technology to another party.

- *No Alternative Future Use.* The acquired IPRD consists of BlueGill's work to date on its products. The products are very specific to the tasks and markets for which it is intended. As is typically the case with software, there are no alternative future uses for the in-process work in the event that the product does not become feasible for CheckFree. The development effort for the acquired IPRD does not possess an alternative future use for CheckFree under the terms of SFAS No. 2.

- If the BlueGill project underway fails, there will be a very limited life to the existing product because the continuing pace of technological developments in the marketplace will have rendered them non-competitive. In the event of a failure, the technology acquired, as embodied in either current or in-process products, will have no alternative use and would be written off as a loss by the Company.

- As of the valuation date, all of the IPRD technologies were subject to numerous technological, timing, cost and market risks. In addition to these risks already mentioned, another major risk associated with the technologies pertains to the language it is written in. According to BlueGill's management, all of the base code may go to the JAVA computer language, causing large sections of the code to be re-written.

Mobius

On March 8, 1999, the Company acquired Mobius Group, Inc. ("Mobius Group") for a total of $19.1 million, consisting of 537,314 shares of common stock valued at $18 million, $0.2 million of acquisition costs, and $0.9 million of assumed debt. The acquisition was treated as a purchase for accounting purposes, and, accordingly, the assets and liabilities were recorded based on their fair values at the date of the acquisition. The values ascribed to acquired intangible assets and their respective useful lives are as follows:

	Intangible Asset	Useful Life
	(In thousands)	
Goodwill	$ 10,552	10.0 yrs
Customer base	4,429	8.0 yrs
Tradenames	3,709	10.0 yrs
Existing product technology	1,864	5.0 yrs
Workforce	940	3.0 yrs

Amortization of intangible assets is on a straight-line basis over the assets' respective useful life. Mobius Group's operations are included in the consolidated statements of operations from the date of acquisition.

At the acquisition date, Mobius Group had four products under development that had not demonstrated technological or commercial feasibility. These products included M-Plan Retirement & Estate Planning Modules, M-Plan Cash Flow, Tax and Education Planning Modules, a new version of M-Search and a new version of M-Vest. The in-process technology has no alternative use in the event that the proposed products do not prove to be feasible. These development efforts fall within the definition of In-Process Research and Development ("IPR&D") contained in SFAS 2.

M-Plan Integrated Financial Planning System. M-Plan is a Windows based integrated financial planning system for retirement and estate planning, cash flow, tax and educational planning and capital needs analysis. It will produce over 100 reports for retirement, new investments, estate planning, and other analysis, as well as provide historical returns and standard deviations for various asset allocations integrated with extensive modeling to provide detailed and usable analysis. M-Plan's wizards will give users the ability to produce and to analyze alternative scenarios quickly. M-Plan will consist of five main disciplines: Retirement and Estate Planning, Cash Flow, Tax and Education modules. M-Plan Retirement and Estate Planning are the core disciplines; a user must own one of these two in order to add future disciplines.

- *M-Plan Retirement & Estate Planning Modules.* Significant development is required to convert trust and gift tax calculations from formulas to C++ programming language. Additionally, work must be performed to create necessary database fields to capture a variety of user scenario analyses. These modules will be used by sophisticated financial planners that will be expected to produce reports for a variety of individuals with specific circumstances and therefore, calculations must produce results under all possible scenarios. In addition, there are over 100 reports to be programmed and customized into usable and readable format and Mobius Group does not currently have the ability to insert data into all of the reports. Finally, developed technology is not in a modular format and, as M-Plan will be sold in modules, additional work must be performed to divide code into modules.

- *Cash Flow, Tax and Education Planning Modules.* Reports for the Cash Flow Planning module had not yet been developed. Mobius Group had not yet determined how it would integrate tax tables into its tax calculations, as only tax rate calculations are currently available in the Tax Planning module and significant work remained to complete reports and database fields. There had been no significant data gathering for the Education Planning module and therefore the code had not yet been written for the calculations, the database fields and the reports.

The technology utilized in the M-Plan is based entirely on new technology. Although the Company has been selling another comprehensive financial planning program, it operated on a DOS platform and the new programs are being developed in C++ for Windows.

M-Search Revision - M-Search is Mobius Group's Investment Manager Database System, containing comprehensive qualitative and quantitative data on over 1,300 investment management firms and 5,000 composites. In-process development is designed to allow the user to customize reports based on selection criteria, which the current version does not offer. This effort requires a rewrite of a significant portion of the source code. Based on software engineers' estimates of the percentage of reuse of developed technology within particular components of the product, 25% of its value is attributable to core technology.

M-Vest Revision - M-Vest is Mobius Group's 16-bit asset allocation system that is under development to port the entire program over to 32-bit. This development effort requires significant changes to the user interface, a revision of most of the reports and changes to core algorithms. Management estimates that it would have taken six man months to recreate the code from the beginning and the entire porting would take 12 man months and as a result, 30% of its value is attributable to core technology.

The following table presents information regarding the status of various in-process research and development projects acquired in connection with the Mobius Group acquisition:

	Estimated Stage Of Completion	Expected Release	Expected Cost To Complete	Valuation
			(in thousands)	
M-Plan:				
Retirement and Estate Planning Module	92%	May 1999	$ 49	$ 693
Cash Flow, Tax and Education Module	64%	December 1999	208	183
M-Search Revision	56%	September 1999	176	1,218
M-Vest Revision	20%	September 1999	220	107
Total			$ 653	$ 2,201

The method used to allocate the purchase consideration to IPR&D was the modified income approach. The projected revenues used in the income approach are based upon the incremental revenues associated with a portion of the project related to Mobius Group's technology likely to be generated upon completion of the project and the beginning of commercial sales, as estimated by the Company's management. The projections assume that the product will be successful and the products' development and commercialization are as set forth by management. The discount rate used in this analysis is an after-tax rate of 20%

Certain risks and uncertainties were associated with the completion of the development with a reasonable projected period of time. These risks include:

- The Retirement and Estate Planning module had been sent to a development partner for testing and identification of errors. Due to the nature of the product and the necessity that all calculations work correctly in order for the product to be commercially viable and to function as designed, this testing is considered a significant part of the development effort.
- The cash flow module reports had not been developed. As the reports are the only output seen by the end user, this represents a major development effort.
- The Company had not yet determined how it will integrate tax tables into its tax calculation in the tax module. Significant work remains to complete reports and database fields.
- For the education module, significant data gathering had not occurred and, therefore, the code had not yet been written for the calculations, the database fields, and the reports.
- Significant risks still exist related to the completion and reintegration of the M-Plan Modules (Retirement and Estate Planning and Cash Flow, Tax, and Education Modules). For example, a user who borrows for education purposes from his retirement fund should see his retirement decrease (in the Retirement Module) and education investment increase (in the Education Module).
- The M-Plan Modules are based entirely on new technology, since they are written in C++ for a windows platform and utilize no existing technology.
- M-Vest is Mobius Group's current asset allocation system. There is an on-going development program to migrate this program to run on 32-bit hardware. This effort requires significant changes to interfaces, to reports and some core algorithms.
- Each of the acquired IPR&D projects had not demonstrated their technological or commercial feasibility as of the valuation date. Significant risks exist because of uncertainties the Company may face in the form of time and costs necessary to produce technologically feasible products.
- If the proposed products fail to become viable, there is uncertainty that the Company would be able to realize any value from the sale of the technology to another party.

AMTI

On October 3, 1997, the Company acquired certain assets of Advanced Mortgage Technologies, Inc. (“AMTI”) for cash of $1.0 million. The acquisition was treated as a purchase for accounting purposes, and accordingly, the assets and liabilities were recorded based on their fair values at the date of the acquisition. Of the total purchase price, $0.2 million was allocated to goodwill and $0.1 million to other identifiable intangible assets. Additionally, $0.7 million was allocated to in-process research and development, which was charged to operations at the time of the acquisition.

The unaudited pro forma results of operations of the Company for the year ended June 30, 1999 and 2000, assuming the acquisitions occurred at the beginning of each period are as follows (in thousands):

	Year Ended June 30,	
	1999	2000
Total revenues	$ 258,917	$ 316,812
Net income (loss)	$ (42,285)	$ (80,171)
Basic and Diluted earnings per share:		
Net income (loss) per common share	$ (0.74)	$ (1.38)
Equivalent number of shares	57,529	58,078

This information is presented to facilitate meaningful comparisons to on-going operations and to other companies. The unaudited pro forma amounts above do not include a charge for in-process research and development of $6.9 million arising from the BlueGill acquisition in 2000 and $2.2 million arising from the Mobius acquisition in 1999. The unaudited pro forma information is not necessarily indicative of the actual results of operations had the transactions occurred at the beginning of the periods presented, nor should it be used to project the Company's results of operations for any future periods.

Dispositions

On October 1, 1998 the Company sold certain software and other assets related to its imaging line of business for $0.8 million consisting of a note receivable of $0.5 million and future services of $0.3 million. Loss on the sale amounted to $2.9 million.

On September 11, 1998 the Company sold certain software and other assets related to its mortgage line of business for $19.1 million, net of a working capital adjustment. As part of the sales agreement, the Company retained responsibility for certain customer obligations and agreed to subcontract with the acquiring company to perform consulting services at retail hourly rates for these retained obligations. The Company received cash of $15 million, net of $4.0 million of prepaid subcontract services due the acquiring company. Net gain on the sale amounted to $6.4 million.

On July 6, 1998 the Company divested itself of certain software related to its leasing line of business. The Company paid the acquiring party $639,000 in cash and agreed to five additional quarterly installments of $60,000 each. Additionally, in conjunction with this transaction, the Company agreed to pay $3.0 million to a customer to relieve the Company and acquiring party of further obligations relating to a product related consulting agreement. The loss of $4.7 million was recorded in the fourth quarter of the year ended June 30, 1998.

On April 20, 1998, the Company sold certain software and related assets of its wire transfer and cash management businesses for cash of $18.25 million resulting in a net gain on the sale of $14.7 million.

On March 24, 1998, the Company sold certain software and related assets of its item processing business for cash of $3.4 million resulting in a net gain on the sale of $3.2 million.

On August 29, 1997, the Company sold certain software and related assets of its recovery management business for cash of $33.5 million resulting in a net gain on the sale of $28.2 million.

The gain or loss on sale of assets described above is included in Net Gain on Dispositions of Assets in the Company's Consolidated Statements of Operations.

3. INVESTMENTS

Investments consist of the following (in thousands):

	June 30, 1999	June 30, 2000
Held-to-Maturity	$ 7,819	$ 162,989
Trading	10,266	6,660
Other investments	-	11,171
Less: Amounts classified as cash equivalents	(5,944)	(101,269)
Total investments	$ 12,141	$ 79,551

The following is a summary of Held-to-Maturity investment securities (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 1999:				
Corporate bonds	$ -	$ -	$ -	$ -
Commercial paper	-	-	-	-
Certificates of deposit	-	-	-	-
U.S. Government and federal agency Obligations	1,875	-	(14)	1,861
Money market funds	5,944	-	-	5,944
Held-to-Maturity investments	7,819	-	(14)	7,805
Less: amounts classified as cash Equivalents	(5,944)	-	-	(5,944)
Total Held-to-Maturity Investments	$ 1,875	$ -	$ (14)	$ 1,861
June 30, 2000:				
Corporate bonds	$ 50,824	$ -	$ (148)	$ 50,676
Commercial paper	68,886	211	-	69,097
Certificates of deposit	29,981		(86)	29,895
U.S. Government and federal agency Obligations	2,824	4	(18)	2,810
Money market funds	10,474		-	10,474
Held-to-Maturity investments	162,989	215	(252)	162,952
Less: amounts classified as cash Equivalents	(101,269)	(215)	19	(101,465)
Total Held-to-Maturity Investments	$ 61,720	$ -	$ (233)	$ 61,487

The fair value of Held-to-Maturity securities is based on quoted market values.

The amortized cost and fair value of held-to-maturity investment securities at June 30, 2000 by contractual maturity or repricing date are as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 49,888	$ 49,722
Due after one year through five years	11,832	11,765
	$ 61,720	$ 61,487

Expected maturities may differ from contractual maturities because debt issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Other investments include a $10,000,000 strategic investment in BillServ.com common stock, which is subject to certain trading restrictions, and $1,171,000 of warrants to acquire common shares of Derivion, Inc., a non-publicly traded e-billing application service provider. The fair value of the Company's investment in BillServ.com at June 30, 2000, based on quoted market price, was approximately $8,077,000 and the carrying value of the investment in Derivion, Inc. approximated its fair value.

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following (in thousands):

	June 30, 1999	June 30, 2000
Trade accounts receivable	$ 31,366	$ 46,609
Unbilled trade accounts receivable	16,334	10,302
Other receivables	2,390	5,400
Total	50,090	62,311
Less allowance for doubtful accounts	4,430	4,003
Accounts receivable, net	$ 45,660	$ 58,308

Trade accounts receivable represents amounts billed to customers. Unbilled trade accounts receivable result from extended payment terms on software license agreements or services agreements and are recorded at the time of contract execution. Revenue is recognized and customers are billed under service agreements as the services are performed. For software contracts, revenue is recognized under the provisions of SOP 97-2 as described in Note 1, and unbilled amounts under those software contracts are billed on specific dates according to contractual terms. Other receivables are comprised primarily of interest receivable and amounts due from employees for travel and other advances. The allowance for doubtful accounts represents management's estimate of uncollectible accounts receivable.

5. INCOME TAXES

The Company accounts for income taxes in accordance with SFAS 109, "Accounting for Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. In accordance with SFAS 109, deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense (benefit) is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

The Company's income tax benefit consists of the following (in thousands):

	Year Ended June 30, 1998	1999	2000
Current:			
Federal	$ 3,795	$ (10,555)	$ -
State and local	1,063	(2,308)	-
Total current	4,858	(12,863)	-
Deferred federal and state	(5,499)	854	(11,437)
Total income tax benefit	$ (641)	$ (12,009)	$ (11,437)

Income tax expense differs from the amounts computed by applying the U.S. federal statutory income tax rate of 35 percent to income before income taxes as a result of the following (in thousands):

	Year Ended June 30, 1998	1999	2000
Computed "expected" tax benefit	$ (1,520)	$ (543)	$ (15,315)
Nondeductible in-process research and development of acquired businesses	252	770	2,415
Nondeductible intangible amortization	1,189	1,137	3,572
State and local taxes, net of federal income tax Benefits	21	(1,741)	(1,636)
Loss from medical benefits subsidiary		(10,665)	
Other, net	(583)	(967)	(473)
Total income tax benefit	$ (641)	$(12,009)	$ (11,437)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 1999 and 2000 are as follows (in thousands):

	June 30, 1999	June 30, 2000
Deferred tax assets:		
Federal and state net operating loss carryforwards	$ 12,739	$ 32,219
Federal and state tax credit carryforwards	2,145	3,867
Allowance for bad debts and returns	1,996	1,774
Accrued compensation and related items	2,028	5,429
Stock warrants	12,964	19,331
Reserve accruals	3,410	3,558
Total deferred tax assets	35,282	66,178
Deferred tax liabilities:		
Capitalized software	(2,246)	(12,792)
Property and equipment	(2,327)	(1,850)
Deferred revenue	(128)	(49)
Intangible assets	(1,354)	(11,526)
Prepaid expenses	(794)	(980)
Total deferred tax liabilities	(6,849)	(27,197)
Net deferred tax asset	$ 28,433	$ 38,981

At June 30, 2000, the Company has approximately $95,038,000 of state and $73,654,000 of federal net operating loss carryforwards available, expiring in 2009 to 2014 and 2009 to 2020, respectively. Additionally, at June 30, 2000, the Company has approximately $488,000 of state and $3,379,000 of federal tax credit carryforwards available, expiring in 2008 to 2010 and 2009 to 2020, respectively.

The realization of the Company's deferred tax assets, which relate primarily to net operating loss carryforwards and temporary differences is dependent on generating sufficient taxable income in future periods. Although realization is not assured, management believes it is more likely than not that the net deferred tax assets will be realized.

6. PROPERTY AND EQUIPMENT

The components of property and equipment are as follows (in thousands):

	June 30, 1999	June 30, 2000
Land and land improvements	$ 4,341	$ 4,944
Building and building improvements	31,226	39,992
Computer equipment and software licenses	72,138	101,662
Furniture and equipment	11,404	14,071
Total	119,109	160,669
Less accumulated depreciation and amortization	49,286	67,455
Property and equipment, net	$ 69,823	$ 93,214

7. INTANGIBLE ASSETS

The components of intangible assets are as follows (in thousands):

	June 30, 1999	June 30, 2000
Workforce	$ 6,171	$ 8,771
Tradenames	4,568	19,668
Customer base	5,758	16,358
Covenants not to compete		1,200
Total	16,497	45,997
Less accumulated amortization	2,902	8,022
Intangible assets, net	$ 13,595	$ 37,975

8. ACCRUED LIABILITIES

The components of accrued liabilities are as follows (in thousands):

	June 30, 1999	June 30, 2000
Compensation and benefits	$ 10,307	$ 25,288
Processing fees	908	3,065
Reserve for returns and chargebacks	1,664	2,405
Other	14,092	13,200
Total	$ 26,971	$ 43,958

9. LINE OF CREDIT

In May, 1997 the Company obtained a working capital line-of-credit, which enabled the Company to borrow up to $20 million, based on the collateral of eligible accounts receivable. The line expired in October 1999.

On October 25, 1999, the Company executed an amendment to its working capital line-of-credit agreement. The amendment extended the term of the line through December 31, 1999, and changed certain financial covenants contained in the agreement. In January 2000, the Company completed a new line-of credit agreement, which matures on December 30, 2002. The new agreement, which carries an interest rate of LIBOR plus 200 basis points or Prime, enables the Company to borrow up to $30 million and contains certain financial and operating covenants and does not allow for the payment of cash dividends.

No amounts were outstanding under the line at June 30, 1999 and 2000.

10. CONVERTIBLE SUBORDINATED NOTES

On November 29, 1999, the Company issued $172.5 million of 6.5% convertible subordinated notes that are due on December 1, 2006. Interest on the notes is payable on June 1 and December 1 of each year, commencing June 1, 2000. The notes may be converted, at the holder's option, into 13.6612 shares of common stock per $1,000 of note value and the Company may redeem the notes at any time on or after December 1, 2002. At June 30, 2000, none of the notes had been converted to common stock. Interest expense on the notes amounted to $7,307,000 for the year ended June 30, 2000.

11. OBLIGATIONS UNDER CAPITAL LEASES

During 1993, the Company entered into a 20-year lease with the Department of Development of the State of Ohio for land and an office building located in Columbus, Ohio. The Company had the option to purchase the land and building for $1 at the termination of the lease and thus, the Company recorded the transaction as a capital lease. In June, 1999, the Company completed a tax-free exchange of property involving the land and building under this capital lease. In order to exercise its purchase option and complete the transaction, the Company paid $2.5 million of principal obligations under the lease, and placed an additional $3.6 million in escrow. The Company and the State of Ohio entered into an escrow agreement whereby the funds deposited are being used to make scheduled principal and interest payments through September 1, 2000, and retire the remaining principal obligation at that date. The net gain resulting from the sale of the property amounted to $1.1 million and is included in the Net Gain on Dispositions of Assets in the Company's 1999 Consolidated Statement of Operations. Amounts deposited with the escrow trustee are included in current and noncurrent assets and liabilities, based on the respective principal repayment dates, in the Company's June 30, 1999 and 2000 Consolidated Balance Sheets.

The Company also leases certain equipment and software licenses under capital leases. The Company is required to pay certain taxes, insurance and other expenses related to the leased property.

The following is a summary of property under capital leases included in the accompanying consolidated balance sheets (in thousands):

	June 30, 1999	June 30, 2000
Equipment and software licenses	$ 3,654	$ 3,654
Less accumulated depreciation and amortization	2,266	2,585
Property under capital leases, net	$ 1,388	$ 1,069

Future minimum lease payments required by the capital leases and the net future minimum lease payments are as follows (in thousands):

Fiscal Year Ending June 30,	
2001	$ 3,253
2002	390
2003	373
2004	62
Total future minimum lease payments	4,078
Less amount representing interest	101
Net future minimum lease payments	$ 3,977

12. OPERATING LEASES

The Company leases certain office space and equipment under operating leases. Certain leases contain renewal options and generally provide that the Company shall pay for insurance, taxes and maintenance. In addition, certain leases include rent escalations throughout the terms of the leases. Total expense under all operating lease agreements for the years ended June 30, 1998, 1999 and 2000, was $5,800,000, $13,413,000 and $19,095,000, respectively.

Minimum future rental payments under these leases are as follows (in thousands):

Fiscal Year Ending June 30,	
2001	$ 18,600
2002	16,784
2003	12,975
2004	11,389
2005	9,888
Thereafter	76,170
Net future minimum lease payments	$ 145,806

13. EMPLOYEE BENEFIT PLANS

Retirement Plan – The Company has a defined contribution 401(k) retirement plan covering substantially all of its employees. Under the plan eligible employees may contribute a portion of their salary until retirement and the Company, at its discretion, may match a portion of the employee's contribution. Total expense under the plan amounted to $859,000, $1,218,000 and $2,886,000, for the years ended June 30, 1998, 1999 and 2000, respectively.

Deferred Compensation Plan – In January, 1999, the Company established a deferred compensation plan (the "DCP") covering highly-compensated employees as defined by the DCP. Under the plan, eligible employees may contribute a portion of their salary on a pre-tax basis. The DCP is a non-qualified plan, therefore the associated liabilities are included in the Company's June 30, 1999 and 2000 Consolidated Balance Sheets. In addition, the Company has established a rabbi trust to finance obligations under the DCP with corporate-owned life insurance policies on participants. The cash surrender value of such policies is also included in the Company's June 30, 1999 and 2000 Consolidated Balance Sheets. Total expense under the DCP for the periods ended June 30, 1999 and 2000 amounted to $40,000 and $162,000, respectively.

Group Medical Plans – Effective January 1,2000, the Company converted all of its employees to a group medical self-insurance plan. The Company has employed an administrator to manage this plan. Under terms of this plan, both the Company and eligible employees are required to make contributions to this plan. The administrator reviews all claims filed and authorizes the payment of benefits. The Company has stop-loss insurance coverage on all individual claims exceeding $75,000. Prior to January 1, 2000, the Company had a group medical self-insurance plan covering certain of its employees, and medical insurance coverage under managed care health plans covering the remaining employees. Total expense for medical insurance coverage amounted to $3,752,000, $4,430,000, and $7,359,000, for the years ended June 30, 1998, 1999 and 2000, respectively. Under the self-insurance plans, the Company expenses amounts as claims are incurred and recognizes a liability for incurred but not reported claims. At June 30, 1999 and 2000, the Company accrued $315,000 and $2,513,000 respectively, as a liability for costs incurred but not paid under these plans.

In December, 1998, a subsidiary, CheckFree Management Corporation, was created to administer the Company's employee medical benefits program (See Note 21). The Company owns a controlling interest in the subsidiary, and therefore, the accompanying consolidated financial statements include the subsidiary's results of operations.

14. COMMON STOCK

Employee Plans

During 1995, the company adopted the 1995 Stock Option Plan (the "1995 Plan). The 1995 Plan replaces in its entirety the 1993 Stock Option Plan (the "1993 Plan"). The options granted under the 1995 and 1993 Plans may be either incentive stock options or non-statutory stock options. The terms of the options granted under the 1995 and 1993 Plans are at the sole discretion of a committee of members of the Company's Board of Directors, not to exceed ten years. Generally, options vest at either 33% or 20% per year from the dated of grant. The 1995 Plan originally provided that the Company may grant options for not more than 5,000,000 shares of common stock to certain key employees, officers and directors. In November of 1998, the 1995 Plan was amended by a vote of the Company's shareholders to extend the maximum option grants to not more than 8,000,000 shares. Options granted under the 1995 and 1993 Plans are exercisable according to the terms of each option, however, in the event of a change in control or merger as defined, the options shall become immediately exercisable. At June 30, 2000, 1,774,580 additional shares are available for grant in the aggregate for all Plans.

Previously, the Company had adopted the 1983 Incentive Stock Option Plan and the 1983 Non-Statutory Stock Option Plan (collectively, the "1983 Plans"), which provided that the Board of Directors may grant options for shares of common stock to certain employees and directors. Under the terms of the 1983 Plans, options are exercisable over a period up to ten years from the grant date. In the event the Company is sold, options outstanding under the 1983 Plans must be repurchased at a price calculated as if the options had been fully exercised.

All options granted under the 1983 Plans, the 1993 Plan and the 1995 Plan were granted at exercise prices not less than the fair market value of the underlying common stock at the date of grant. In the event that shares purchased through the exercise of incentive stock options are sold within one year of exercise, the Company is entitled to a tax deduction. The tax benefit of the deduction is not reflected in the consolidated statements of operations but is reflected as an increase in additional paid-in capital.

The following table summarizes stock option activity from July 1, 1997 to June 30, 2000:

	Year Ended					
	June 30, 1998		June 30, 1999		June 30, 2000	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding – Beginning of period	4,441,161	$ 9.59	4,365,562	$ 15.23	5,196,600	$ 18.69
Granted	1,377,334	25.60	1,575,057	36.40	1,476,957	74.45
Assumed with BlueGill acquisition	-	-	-	-	637,746	4.31
Exercised	(708,661)	3.17	(354,758)	4.56	(794,778)	12.32
Cancelled	(744,572)	12.63	(389,261)	16.12	(354,740)	27.16
Outstanding – End of period	4,365,562	$ 15.23	5,196,600	$ 18.69	6,161,785	$ 30.86
Options exercisable at end of period	1,352,516	$ 6.81	1,394,269	$ 9.00	1,850,887	$ 13.58
Weighted average per share fair value of options granted during the year		$ 10.77		$ 17.65		$ 48.16

The following table summarizes information about options outstanding at June 30, 2000:

	Options Outstanding			Options Exercisable	
		Weighted Average		Weighted Average	
Range of Exercise Prices	Number	Remaining Contractual Life	Exercise Price	Number	Exercise Price
\$ 0.01 - \$ 15.00	3,125,547	6.8	\$ 8.38	1,322,634	\$ 4.62
\$15.01 - \$ 30.00	517,989	7.5	21.25	194,033	22.76
\$30.01 - \$ 60.00	1,713,631	9.1	43.80	334,220	43.72
\$60.01 - \$ 90.00	252,950	9.5	80.15	-	-
\$90.01 - \$120.00	551,668	9.5	104.50	-	-
	6,161,785		\$ 30.86	1,850,857	\$ 13.58

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in the years ended June 30, 1998, 1999 and 2000, respectively: dividend yield of 0% in all periods; expected volatility of 48%, 49% and 83%; risk-free interest rates of 5.21%, 5.87%, and 6.30%; and expected lives of five to seven years.

The Company agreed to assume responsibility for the 1997 and 1998 Employee Incentive Stock Option Plans of BlueGill Technologies, Inc. in conjunction with the acquisition of BlueGill in April 2000. All outstanding options were converted to equivalent CheckFree options as specifically prescribed in the Asset Purchase Agreement. The fair value of the options assumed of \$18.5 million was estimated on the acquisition date using the Black-Scholes option pricing model with the following weighted-average assumptions used: dividend yield of 0%, expected volatility of 83%; risk-free interest rate of 6.60% and expected lives of one half to seven years. The estimated fair value of the assumed option plans was added to the fair value of Company stock issued in determining the purchase price of BlueGill.

In September 1998, the Company offered an option repricing program to its employees. Under the terms of the offer, employees had one week to return any outstanding option grant in its entirety and replace it on a share-for-share basis for an option grant with an exercise price equal to the fair market value of the Company's Common Stock at the new grant date. Only those exchanges received within one day of the designated grant date were accepted and any vested options in such returned grants were forfeited. The lives of returned historical grants typically ranged from three to five years with straight line vesting beginning one year from the original grant date. All newly issued option grants had a life of five years with vesting to occur at 40% beginning two years from the new grant date and 20% for each year thereafter. A total of 1,418,403 options were returned and had the offer taken place at June 30, 1998, the options exercisable would have decreased by 95,614.

Under the 1997 Associate Stock Purchase Plan, effective for the six-month period beginning January 1, 1997, the Company is authorized to issue up to 1,000,000 shares of Common Stock to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the Plan, employees can choose, every six months, to have up to 15% of their salary withheld to purchase the Company's Common Stock. The purchase price of the stock is 85% of the lower of its beginning-of-period or end-of-period market price. Participation in the plan by eligible employees has ranged from 30% to 50% in any given six-month period. Under the Plan, 56,844 shares were issued in January of 1998, 48,631 in July of 1998, 48,748 in January of 1999 and 46,819 in July of 1999, 52,191 in January of 2000 and 34,880 in July of 2000 from employees' salary withholdings from the respective previous six-month period. As of June 30, 2000 there were 693,754 shares available for future issuance to the Associate Stock Purchase Plan. Following is a summary of the weighted average fair market value of this look-back option estimated on the grant date using the Black-Scholes option pricing model, and the related assumptions used:

	December 31, 1997	June 30, 1998	December 31, 1998	June 30, 1999	December 31, 1999	June 30, 2000
Fair value of options	\$14.10	\$9.68	\$7.18	\$5.51	\$8.93	\$29.15
Assumptions:						
Risk-free interest rate	5.0%	5.0%	4.9%	4.9%	5.8%	5.8%
Expected life	3 months	3 months	3 months	3 months	3 months	3 months
Volatility	48.0%	48.0%	49.0%	49.0%	83.4%	83.4%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

The Company applies APB Opinion 25, "Accounting for Stock Issued to Employees" and related Interpretations in accounting for its stock option plans and employee stock purchase plan. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans in accordance with the provisions of SFAS 123, "Accounting for Stock-Based Compensation," the Company's net income (loss) and net income (loss) per share would have been as follows (in thousands, except per share data):

	Year Ended June 30,		
	1998	1999	2000
Pro forma net income (loss)	$ (9,521)	$ 1,032	$ (54,030)
Pro forma net income (loss) per share; Basic and Diluted	$ (0.17)	$ 0.02	$ (1.01)

The pro forma amounts are not representative of the effects on reported net income (loss) for future years.

In the year ended June 30, 2000 the Company issued 13,000 shares of restricted stock to certain of its key employees. Under the terms of the grants the shares vest annually over a five-year period and full vesting is dependent upon the continued employment of the employee for the duration of the vesting period. Shares issued were recorded at fair market value on the date of the grant with a corresponding charge to stockholders' equity. The unearned portion is being amortized as compensation expense on a straight-line basis over the related vesting period.

In January 1997 the Board of Directors approved an amendment to the Company's 401(k) plan which authorized up to 1,000,000 shares of Common Stock for the Company's matching contribution. The Company issued 74,981 shares in August 1998 and 36,226 shares in August of 1999 to fund its 401(k) match that had accrued during the years ended June 30, 1998 and 1999, respectively. As of June 30, 2000 there were 810,536 shares available for future contributions to the 401(k) plan.

Stock Related Transactions With Third Parties

As described below, the Company has issued certain stock warrants to third parties and has accounted for the issuance of such warrants in accordance with the provisions of EITF 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services."

In October 1999, the Company entered into an agreement with one of its customers. Under the terms of the agreement, the customer purchased 250,000 shares of the Company's stock, has been issued warrants on one million shares, and has the ability to earn warrants on up to two million additional shares. All warrants are exercisable on September 15, 2002 contingent upon achievement of various annual revenue targets and maintaining the continued existence of the agreement through that date. Upon vesting, the Company will record a charge for the fair value of the warrants, based on a Black-Scholes valuation which will take into consideration the market value of our stock, the $39.25 strike price, the volatility of our stock and the applicable risk-free interest rate at that time.

In January 1998 the Company entered into a 10-year processing agreement with a strategic partner. Under the terms of the agreement, the partner acquired 10-year warrants exercisable at $20 15/16 for 10 million shares of the Company's Common Stock. Three million warrants vested upon the execution of a related processing outsourcing agreement on March 9, 1998 which resulted in the Company recording a non-cash charge of $32.4 million. The charge was based on a Black-Scholes option pricing model valuation of $10.80 per share using the following assumptions: risk-free rate of 5.7%, expected life of 10 years, and volatility rate of 56.4%. The remaining seven million warrants are to vest upon achievement of specific performance targets set forth in the agreement. Any shares acquired by the strategic partner under the terms of this agreement are subject to certain transfer and other restrictions. During the fiscal year ended June 30, 2000 the strategic partner exercised 750,000 of the vested options and 2,250,000 remain outstanding.

In March 1997 the Company entered into a consulting agreement with a third party. Under the terms of the agreement the consultant acquired 5-year options exercisable at $13.00 for up to 50,000 shares of the Company's Common Stock. In June of 1998, upon the execution of a processing agreement with a key customer, 25,000 of the options vested, which resulted in the Company recording a non-cash charge of $418,000. The charge was based on a Black-Scholes option pricing model valuation of $16.73 per vested share using the following assumptions: risk-free rate of 5.6%, expected life of 4 years, and volatility rate of 56.4%. The remaining 25,000 options are to vest upon achievement of specific performance targets by key customers set forth in the agreement. Any shares acquired by the consultant under the terms of the agreement are subject to certain transfer restrictions.

Convertible Subordinated Notes

In November 1999 the Company issued $172.5 million of convertible subordinated notes. Each $1,000 note may be converted, at the holder's option, into 13.6612 shares of common stock at a conversion rate of $73.20 per share. The fair market value of the Company's stock on June 30, 2000 was $51.56 per share. Please refer to Note 10 for further information regarding the convertible subordinated notes.

15. PREFERRED STOCK

In January 1997, the Company's Board of Directors declared a dividend distribution of Preferred Share Purchase Rights to protect its stockholders in the event of an unsolicited attempt to acquire the Company. On February 14, 1997, the Rights were issued to the Company's stockholders of record, with an expiration date of 10 years. Until a person or group acquires 15% or more of the Company's Common Stock, the Rights will automatically trade with the shares of Common Stock. Only when a person or group has acquired 15% or more of the Company's Common Stock, will the Rights become exercisable and separate certificates issued. Prior to the acquisition by a person or group of beneficial ownership of 15% or more of the Company's Common Stock, the Rights are redeemable for $.001 per Right at the option of the Board of Directors.

16. EARNINGS PER SHARE

The following table reconciles the differences in income and shares outstanding between basic and dilutive for the periods indicated (in thousands, except per share data):

	Year Ended June 30, 1998			Year Ended June 30, 1999			Year Ended June 30, 2000		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS	$ (3,703)	55,087	$ (0.07)	$ 10,457	52,444	$ 0.20	$ (32,320)	53,367	$ (0.61)
Effective of dilutive securities:									
Options and warrants	-	-		-	4,085		-	-	
Convertible notes	-	-		-	-		-	-	
Diluted EPS	$ (3,703)	55,087	$ (0.07)	$ 10,457	56,529	$ 0.18	$ (32,320)	53,367	$ (0.61)

Anti-dilution provisions of SFAS 128 require consistency between diluted per-common-share amounts and basic per-common-share amounts in loss periods. The number of anti-dilutive equivalent shares excluded from the per-share calculations are 1,725,000 and 6,157,241 for the years ended June 30, 1998 and 2000, respectively. The after-tax effect of interest expense on the convertible subordinated notes of $4,384,000 has not been added back to the numerator as its effect would be anti-dilutive.

17. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	Year Ended June 30,		
	1998	1999	2000
		(In thousands)	
Interest paid	$ 632	$ 618	$ 5,982
Income taxes paid (received), net	$ 1,434	$ 1,688	$ (229)
Supplemental disclosure of non-cash investing and financing activities:			
Capital lease additions and purchase of other long-term assets	$ 650	$ 3,379	$ 5,688
Stock funding of 401(k) match	$ -	$ 963	$ 1,059
Purchase price of business acquisitions	$ 1,000	$ 19,100	$ 239,900
Less: Issuance of common stock and stock options pursuant to acquisitions	-	18,000	240,000
Liabilities assumed	145	887	-
Cash acquired in acquisitions	-	23	(9,052)
Net cash paid (received)	$ 855	$ 190	$ (9,152)

18. BUSINESS SEGMENTS

The Company operates in three business segments - Electronic Commerce, Software, and Investment Services. These reportable segments are strategic business units that offer different products and services. A further description of each business segment along with the Corporate services area follows:

- *Electronic Commerce* – Electronic Commerce provides services that allow consumers to receive electronic bills through the Internet, pay bills received electronically or in paper form to anyone, and perform ordinary banking transactions including balance inquiries, transfers between accounts and on-line statement reconciliation. These services are primarily directed to financial institutions, Internet financial sites, personal financial management software providers and the customers of these businesses.
- *Software* – Software includes software products and related services for electronic billing, ACH processing and account reconciliation. These products and services are primarily directed to large corporations and financial institutions.
- *Investment Services* – Investment Services includes investment portfolio management services and investment trading and reporting services. These products and services are primarily directed to fee based money managers and financial planners who manage investments of institutions and high net worth individuals.
- *Corporate* – Corporate services include human resources, legal, accounting and various other of the Company's unallocated overhead charges.

The accounting policies of the segments are the same as those described in Note 1 "Summary of Significant Accounting Policies". The Company evaluates performance based on revenues and operating income (loss) of the respective segments. No single customer accounted for 10% or more of consolidated revenues for the years ended June 30, 1998, 1999 and 2000. Foreign sales for the periods presented are insignificant. There are no intersegment sales.

The following sets forth certain financial information attributable to the Company's business segments for the years ended June 30, 1998, 1999 and 2000 (in thousands):

	Year Ended June 30,		
	1998	1999	2000
Revenues:			
Electronic Commerce	$ 137,972	$ 169,443	$ 213,391
Software	66,143	41,384	42,012
Investment Services	29,749	39,304	54,792
Total	$ 233,864	$ 250,131	$ 310,195
Operating income (loss):			
Electronic Commerce	$ (39,423)	$ (5,490)	$ (20,619)
Software – including charges for acquired in-process research and development of $719 in 1998 and $6,900 in 2000	48,854	18,083	(7,590)
Investment Services – including charge for acquired in-process research and development of $2,201 in 1999	5,040	5,892	10,910
Corporate	(21,647)	(22,218)	(26,120)
Total	$ (7,176)	$ (3,733)	$ (43,419)
Identifiable assets:			
Electronic Commerce	$ 70,192	$ 80,223	$ 102,220
Software	39,346	34,194	273,120
Investment Services	21,187	49,098	47,246
Corporate	119,387	89,246	290,528
Total	$ 250,112	$ 252,761	$ 713,114
Capital expenditures:			
Electronic Commerce	$ 19,532	$ 9,258	$ 18,299
Software	2,197	1,189	1,773
Investment Services	895	4,764	2,868
Corporate	5,315	25,233	16,555
Total	$ 27,939	$ 40,444	$ 39,495

	Year Ended June 30,		
	1998	1999	2000
Depreciation and amortization:			
Electronic Commerce	$ 9,964	$ 14,,214	$ 19,282
Software	6,051	2,069	12,317
Investment Services	4,558	5,336	7,634
Corporate	4,426	3,011	3,597
Total	$ 24,999	$ 24,630	$ 42,830

19. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following quarterly financial information for the years ended June 30, 1999 and 2000 includes all adjustments necessary for a fair presentation of quarterly results of operations: (In thousands, except per share data):

	Quarter Ended			
	September 30	December 31	March 31	June 30
FISCAL 1999				
Total revenue	$ 56,814	$ 59,605	$ 62,960	$ 70,752
Income (loss) from operations	(3,462)	(1,408)	349	788
Net income (loss)	(1,468)	11,375	(308)	858
Basic earnings per share:				
Net income (loss) per common share.	$ (0.03)	$ 0.22	$ (0.01)	$ 0.02
Equivalent number of shares	55,510	52,326	51,218	51,695
Diluted earnings per share:				
Net income (loss) per common share.	$ (0.03)	$ 0.22	$ (0.01)	$ 0.02
Equivalent number of shares	55,510	52,553	51,218	56,839
FISCAL 2000				
Total revenue	$ 69,020	$ 72,969	$ 79,706	$ 88,500
Income (loss) from operations	(6,365)	(6,275)	(5,773)	(25,006)
Net income (loss)	(3,936)	(3,969)	(3,873)	(20,542)
Basic earnings per share:				
Net income (loss) per common share.	$ (0.08)	$ (0.08)	$ (0.07)	$ (0.36)
Equivalent number of shares	51,848	52,200	52,716	56,721
Diluted earnings per share:				
Net income (loss) per common share.	$ (0.08)	$ (0.08)	$ (0.07)	$ (0.36)
Equivalent number of shares	51,848	52,200	52,716	56,721

The sum of the quarterly income (loss) per share does not equal the year-to-date income (loss) per share for the respective fiscal periods, due to changes in the number of shares outstanding at each quarter-end.

Significant Fourth Quarter Transactions - During the week of April 26, 1999, the Company experienced a system error that led users of its electronic billing and payment services to experience intermittent problems accessing and using the system. As a result of this situation, the Company incurred charges of $2,681,000, of which $800,000 is reflected as a reduction in processing and servicing revenue and $1,881,000 as sales and marketing expense in the Company's Consolidated Statements of Operations for the year ended June 30, 1999.

During the fourth quarter of 1999, the Company incurred $890,000 of costs associated with a recalled secondary offering of stock. The costs are reflected in general and administrative expense in the Consolidated Statements of Operations for the year ended June 30, 1999.

20. COMMITMENTS

In June 1999, the Company entered into a five-year agreement for software to be used in conjunction with its electronic commerce business. The software is to be licensed in incremental units over the term of the agreement to coincide with the growth of the Company's business. Total commitments under the agreement amount to $10 million over the five-year term.

On April 27, 2000 the Company announced a 10-year strategic agreement with Bank of America ("BofA"), whereby the Company will acquire the electronic billing and payment assets of BofA and will provide electronic billing and payment services to BofA's customer base in exchange for 10 million shares of the Company's common stock. The agreement provides for a revenue guarantee of $500 million to the Company over the next 10 years. BofA has the ability to earn warrants on up to 10 million additional shares, eight million of which vest incrementally upon achievement of specific levels of subscriber adoption of electronic billing and payment services and separately, the other two million of which vest upon achievement of specific levels of electronic bills presented to those subscribers. Upon vesting of the warrants, the Company will record a charge for the fair value of the warrants, based on a Black-Scholes valuation which will take into consideration the market value of our stock, the $32.50 strike price of the warrants, the volatility of our stock and the applicable risk-free interest rate at that time. Additionally, the agreement requires the Company to invest $25 million into a joint marketing development fund designed to accelerate adoption of electronic billing and payment services through BofA's customer base. The agreement is pending shareholder approval of the issuance of shares, which is expected before September 30, 2000.

21. GUARANTOR FINANCIAL INFORMATION

CheckFree Management Corporation is a guarantor of the Company's $172,500,000 convertible subordinated notes that were issued November 29, 1999. CheckFree Management Corporation was formed as a medical claims management subsidiary in order to appropriately minimize, control, and manage the medical claims liabilities of the Company and its subsidiaries. As of June 30, 1999 and 2000, the Company and its subsidiaries own approximately 63% and 89%, respectively of CheckFree Management Corporation. The following table sets forth-consolidating financial statements of the Company, CheckFree Management Corporation, and other wholly owned guarantor subsidiaries:

FISCAL 1999

CheckFree Corporation and Subsidiaries
Consolidating Balance Sheet
June 30, 1999
(In thousands)

	CheckFree Corporation	CheckFree Management Corporation	Combined Wholly-owned Guarantor Subsidiaries		Eliminations	CheckFree Corporation Consolidated
Current Assets:						
Cash and cash equivalents	$ 120	$ 291	$ 12,035		$ -	$ 12,446
Investments	-	-	10,266			10,266
Accounts receivable, net	-	1,970	45,660	(1)	(1,970)	45,660
Prepaid expenses and other assets	-	-	7,800		-	7,800
Deferred income taxes	-	-	6,513		-	6,513
Total current assets	120	2,261	82,274		(1,970)	82,685
Property and equipment, net	-	-	69,823		-	69,823
Capitalized software, net	-	-	20,059		-	20,059
Intangible assets, net	-	-	45,875		-	45,875
Investment in subsidiaries	186,922	-	-	(3)	(186,922)	-
Other investments	-	-	1,875		-	1,875
Deferred income taxes	-	-	21,920		-	21,920
				(1)	(27,798)	
				(2)	(29,400)	
Other noncurrent assets	-	27,798	40,158	(4)	(234)	10,524
	$ 187,042	$ 30,059	$ 281,984		$ (246,324)	$ 252,761
Current Liabilities:						
Accounts payable	$ -	$ 318	$ 9,634	(4)	$ (318)	$ 9,634
				(1)	(1,970)	
				(3)	126	
Accrued liabilities	139	-	28,840	(4)	(164)	26,971
Current portion of long-term obligations	-	1,970	1,640	(2)	(1,970)	1,640
Deferred revenue	-	-	20,195		-	20,195
Total current liabilities	139	2,288	60,309		(4,296)	58,440
				(1)	(27,798)	
				(2)	(27,430)	
Accrued rent and other	-	27,430	31,086	(4)	248	3,536
Obligations under capital leases - less current portion	-	-	3,882		-	3,882
Redeemable Preferred Stock	-	114	-	(3)	(114)	-
Stockholders' equity	186,903	227	186,707	(3)	(186,934)	186,903
	$ 187,042	$ 30,059	$ 281,984		$ (246,324)	$ 252,761

1. Elimination of note receivable between CheckFree Services Corporation, a wholly owned subsidiary of CheckFree Corporation, and CheckFree Management Corporation.
2. Elimination of claims liability deposit between CheckFree Services Corporation, a wholly owned subsidiary of CheckFree Corporation, and CheckFree Management Corporation.
3. Elimination of CheckFree Corporation's investment in subsidiaries, including the minority interest of CheckFree Management Corporation.
4. Elimination of other intercompany balance.

CheckFree Corporation and Subsidiaries
Consolidating Statement of Operations
Year Ended June 30, 1999
(In thousands)

	CheckFree Corporation	CheckFree Management Corporation	Combined Wholly-owned Guarantor Subsidiaries		Eliminations	CheckFree Corporation Consolidated
Revenues:						
Processing and servicing	$ -	$ -	$ 201,059		$ -	$ 201,059
License fees	-	-	15,975		-	15,975
Maintenance fees	-	-	17,746		-	17,746
Other	117	-	15,351	(1)	(117)	15,351
Total revenues	117	-	250,131		(117)	250,131
Expenses:						
Cost of processing, servicing and support	-	-	146,704		-	146,704
Research and development	-	-	21,085		-	21,085
Sales and marketing	-	-	32,354		-	32,354
General and administrative	-	117	31,450	(1) (2)	(117) 16	31,466
Depreciation and amortization	-	-	24,630		-	24,630
In-process research and development	-	-	2,201		-	2,201
Total expenses	-	117	258,424		(101)	258,440
Net gain on disposition of assets	-	-	4,576		-	4,576
Income (loss) from operations	117	(117)	(3,717)		(16)	(3,733)
Interest income		1,343	3,941	(3) (4)	(1,300) (1,185)	2,799
Interest expense	-	(1,185)	(1,918)	(3) (4)	1,300 1,185	(618)
Income (loss) before income taxes.	117	41	(1,694)		(16)	(1,552)
Income tax benefit	-	-	(12,009)		-	(12,009)
Income before equity in earnings of subsidiaries	117	41	10,315		(16)	10,457
Equity in earnings of subsidiaries	10,340	-	-	(2)	(10,340)	-
Net income (loss)	$ 10,457	$ 41	$ 10,315		$ (10,356)	$ 10,457

1. Elimination of administrative fee between CheckFree Corporation and CheckFree Management Corporation.
2. Elimination of CheckFree Corporation's investment in subsidiaries, including the minority interest of CheckFree Management Corporation.
3. Elimination of the interest income / expense from the note receivable between CheckFree Services Corporation, a wholly-owned subsidiary of CheckFree Corporation, and CheckFree Management Corporation.
4. Elimination of the interest income / expense from the claims liability deposit between CheckFree Services Corporation, a wholly-owned subsidiary of CheckFree Corporation and CheckFree Management Corporation.

CheckFree Corporation and Subsidiaries
Consolidating Statement of Cash Flows
Year Ended June 30, 1999
(In thousands)

	CheckFree Corporation	CheckFree Management Corporation	Combined Wholly-owned Guarantor Subsidiaries	Eliminations	CheckFree Corporation Consolidated
Operating activities:					
Net income	$ 10,457	$ 41	$ 10,315	(1) (10,356)	$ 10,457
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Equity in earnings of subsidiaries	(10,340)	-	-	(1) 10,340	-
Net inter-subsidiary cash transfers	(2,733)		2,733	-	-
Write-off of in-process research and development	-	-	2,201	-	2,201
Depreciation and amortization	-	-	24,630	-	24,630
Deferred income tax provision	-	-	854	-	854
Net gain on disposition of assets	-	-	(4,576)	-	(4,576)
Purchases of investments-Trading	-	-	(10,416)	-	(10,416)
Proceeds from sales and maturities of investments-Trading	-	-	24,683	-	24,683
Change in certain assets and liabilities (net of acquisitions and dispositions):					
Accounts receivable	-	-	(6,976)	-	(6,976)
Prepaid expenses and other	-	-	1,434	-	1,434
Accounts payable	-	-	988	-	988
Accrued liabilities	-	-	(2,320)	(1) 126	(2,194)
Deferred revenues	-	-	1,739	-	1,739
Income tax accounts	-	-	(17,253)	-	(17,253)
Net cash provided by (used in) operating activities	(2,616)	41	28,036	110	25,571
Investing activities:					
Purchase of property and software	-	-	(40,444)	-	(40,444)
Proceeds from sale of assets	-	-	18,435	-	18,435
Proceeds from repayment of note receivable	-	-	14,882	-	14,882
Capitalization of software development costs	-	-	(8,031)	-	(8,031)
Purchase of business, net of cash acquired	(190)	-	-	-	(190)
Purchase of investments- held to maturity	-	-	(1,875)	-	(1,875)
Proceeds from maturities and sales of investments- held to maturity	-	-	1,006	-	1,006
Loan to related party	-	(30,512)	30,512	-	-
Principal payments on related party loan	-	743	(743)	-	-
Net cash provided by (used in) investing Activities	(190)	(29,769)	13,742	-	(16,217)
Financing Activities:					
Principal payments on capital lease obligations	-	-	(3,327)	-	(3,327)
Escrow deposit associated with capital lease obligation	-	-	(3,637)	-	(3,637)
Proceeds from stock options exercised, including related tax benefits	2,926	-		-	926
Proceeds from employee stock purchase plan	-	-	1,931	-	1,931
Inter-subsidiary cash transfer for purchase of treasury stock	31,336		(31,336)	-	-
Purchase of treasury stock	(31,336)	-	-	-	(31,336)
Issuance of stock	-	300	(190)	(1) (110)	-
Assumption of health plan liabilities	-	30,474	(30,474)	-	-
Payments on health plan liabilities		(755)	755	-	-
Net cash provided by (used in) financing activities	2,926	30,019	(66,278)	(110)	(33,443)
Net increase (decrease) in cash and cash equivalents	120	291	(24,500)	-	(24,089)
Cash and cash equivalents:					
Beginning of period	-	-	36,535	-	36,535
End of period	$ 120	$ 291	$ 12,035	$	$ 12,446

(1) Elimination of CheckFree Corporation's investment in subsidiaries, including the minority interest of CheckFree Management Corporation.

FISCAL 2000:

CheckFree Corporation and Subsidiaries
Consolidating Balance Sheet
June 30, 2000
(In thousands)

	CheckFree Corporation	CheckFree Management Corporation	Combined Wholly-owned Guarantor Subsidiaries		Eliminations	CheckFree Corporation Consolidated
Current Assets:						
Cash and cash equivalents	$ 63	$ 4	$ 128,007		$ -	$ 128,074
Investments	-	-	56,548			56,548
Accounts receivable, net	-	3,678	58,308	(1)	(3,678)	58,308
Prepaid expenses and other assets	-	-	16,491	(2)	(3,678)	12,813
Deferred income taxes	-	-	9,733			9,733
Total current assets	63	3,682	269,087		(7,356)	265,476
Property and equipment, net	-	-	93,214		-	93,214
Capitalized software, net	-	-	37,189		-	37,189
Intangible assets, net	-	-	251,280		-	251,280
Investment in subsidiaries	620,955			(3)	(620,955)	-
Other investments	-	-	23,003		-	23,003
Deferred income taxes	-	-	29,248		-	29,248
Other noncurrent assets	5,180	23,873	29,232	(1) (2)	(23,873) (20,708)	13,704
	$ 626,198	$ 27,555	$ 732,253		$ (672,892)	$ 713,114
Current Liabilities:						
Accounts payable	$ 6,791	$ 250	$ 3,117		$ -	$ 10,158
Accrued liabilities	1,013	2,572	40,373		-	43,958
Current portion of long-term obligations	-	3,678	9,633	(1) (2)	(3,678) (3,678)	5,955
Deferred revenue	-	-	26,644		-	26,644
Total current liabilities	7,804	6,500	79,767		(7,434)	86,715
Accrued rent and other	-	20,708	31,142	(1) (2)	(23,873) (20,708)	7,269
Convertible subordinated notes	172,500	-				172,500
Obligations under capital leases - less current portion	-	-	736		-	736
Redeemable Preferred Stock	-	114		(3)	(114)	-
Stockholders' equity	445,894	233	620,608	(3)	(620,841)	445,894
	$ 626,198	$ 27,555	$ 732,253		$ (672,892)	$ 713,114

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3. Elimination of CheckFree Corporation's investment in subsidiaries, including the minority interest of CheckFree Management Corporation.

CheckFree Corporation and Subsidiaries
Consolidating Statement of Operations
Year Ended June 30, 2000
(In thousands)

	CheckFree Corporation	CheckFree Management Corporation	Combined Wholly-owned Guarantor Subsidiaries		Eliminations	CheckFree Corporation Consolidated
Revenues:						
Processing and servicing	$ -	$ -	$ 261,621		$ -	$ 261,621
License fees	-	-	16,818		-	16,818
Maintenance fees	-	-	18,752		-	18,752
Other	235	-	13,004	(1)	(235)	13,004
Total revenues	235	-	310,195		(235)	310,195
Expenses:						
Cost of processing, servicing and support	-	-	182,540		-	182,540
Research and development.	-	-	35,631		-	35,631
Sales and marketing	-	-	44,782		-	44,782
General and administrative	-	235	40,931	(1)	(235)	40,931
Depreciation and amortization	-	-	42,830		-	42,830
In-process research and development	-	-	6,900		-	6,900
Total expenses	-	235	353,614		(235)	353,614
Income (loss) from operations	235	(235)	(43,419)		-	(43,419)
Interest income	-	2,475	9,898	(3) (4)	(2,457) (2,227)	7,689
Interest expense	(7,307)	(2,227)	(3,177)	(3) (4)	2,457 2,227	(8,027)
Income (loss) before income taxes.	(7,072)	13	(36,698)		-	(43,757)
Income tax benefit	-	-	(11,437)		-	(11,437)
Income (loss) before equity in earnings (loss) of subsidiaries	(7,072)	13	(25,261)		-	(32,320)
Equity in loss of subsidiaries	(25,248)	-	-	(2)	25,248	-
Net income (loss)	$ (32,320)	$ 13	$ (25,261)		$ 25,248	$ (32,320)

1. Elimination of administrative fee between CheckFree Corporation and CheckFree Management Corporation.
2. Elimination of CheckFree Corporation's investment in subsidiaries, including the minority interest of CheckFree Management Corporation.
3. Elimination of the interest income / expense from the note receivable between CheckFree Services Corporation, a wholly owned subsidiary of CheckFree Corporation, and CheckFree Management Corporation.
4. Elimination of the interest income / expense from the claims liability deposit between CheckFree Services Corporation, a wholly owned subsidiary of CheckFree Corporation, and CheckFree Management Corporation.

CheckFree Corporation and Subsidiaries
Consolidating Statement of Cash Flows
Year Ended June 30, 2000
(In thousands)

	CheckFree Corporation	CheckFree Management Corporation	Combined Wholly-owned Guarantor Subsidiaries	Eliminations	CheckFree Corporation Consolidated
Operating activities:					
Net income (loss)	$ (32,320)	$ 13	$ (25,261)	(1) $ 25,248	$ (32,320)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities					
Equity in loss of subsidiaries	25,248	-	-	(1) (25,248)	-
Net inter-subsidiary cash transfers	555	-	(555)	-	
Write-off of in-process research and development	-	-	6,900	-	6,900
Depreciation and amortization	-	-	42,830	-	42,830
Deferred income tax provision	-	-	(31)	-	(31)
Purchases of investments-Trading	-	-	(19,002)	-	(19,002)
Proceeds from sales and maturities of investments-Trading	-	-	22,608	-	22,608
Change in certain assets and liabilities (net of acquisitions and dispositions)					
Accounts receivable	-	-	(14,499)	-	(14,499)
Prepaid expenses and other	-	-	644	-	644
Accounts payable	-	-	(4,153)	-	(4,153)
Accrued liabilities	874	-	19,385	-	20,259
Deferred revenues	-	-	9,188	-	9,188
Income tax accounts	-	-	(11,408)	-	(11,408)
Net cash provided by (used in) operating activities	(5,643)	13	26,646	-	21,016
Investing activities:					
Purchase of property and software	-	-	(39,495)	-	(39,495)
Capitalization of software development costs	-	-	(7,576)	-	(7,576)
Purchase of business, net of cash acquired	(3,713)	-	12,865	-	9,152
Purchase of investments- held to maturity	-	-	(70,796)	-	(70,796)
Proceeds from maturities and sales of investments- held to maturity	-	-	9,780	-	9,780
Purchase of other investments	-		(10,000)	-	(10,000)
Principal payments on related party loan	-	2,218	(2,218)	-	-
Net cash provided by (used in) investing activities	(3,713)	2,218	(107,440)	-	(108,935)
Financing Activities:					
Principal payments on capital lease obligations	-	-	(1,495)	-	(1,495)
Proceeds from stock options exercised, including related tax benefits	9,721	-	-	-	9,721
Proceeds from employee stockpurchase plan	-	-	2,903	-	2,903
Proceeds from sale of stock and exercise of of warrants	25,515	-	-	-	25,515
Inter-subsidiary cash transfer of stock and warrant exercise proceeds	(25,515)		25,515		
Proceeds from issuance of convertible subordinated notes	166,903	-	-	-	166,903
Capital contribution to subsidiary	(167,325)	-	167,325	-	
Loan to related party	-	242	(242)	-	-
Payments on health plan liabilities	-	(2,760)	2,760	-	-
Net cash provided by (used in) financing activities	9,299	(2,518)	196,766	-	203,547
Net increase (decrease) in cash and cash equivalents	(57)	(287)	115,972	-	115,628
Cash and cash equivalents:					
Beginning of period	120	291	12,035	-	12,446
End of period	$ 63	$ 4	$ 128,007	$ -	$ 128,074

(1) Elimination of CheckFree Corporation's investment in subsidiaries, including the minority interest of CheckFree Management Corporation.

The following table represents the equity structure of CheckFree Management Corporation as of June 30, 1999 and 2000 (In thousands, except share data):

	June 30, 1999		June 30, 2000	
REDEEMABLE PREFERRED STOCK:				
Class C,350 authorized shares, $100par value; 350 shares issued and outstanding	$	36	$	36
Class D,750 authorized shares, $100par value; 750 shares issued and outstanding		78		78
Total redeemable preferred stock	$	114	$	114
STOCKHOLDERS' EQUITY:				
Preferred stock- Class B,600 authorized shares, $100par value; 600 shares issued, no amounts outstanding	$	-	$	-
Common stock- Class A, 1,900 authorized shares, $100 par value; 1,900 shares issued and outstanding		190		190
Retained earnings		37		42
Total stockholders' equity	$	227	$	232

Redeemable Preferred Stock - The holders are entitled to receive dividends before any dividend is declared or paid on shares of Class A Common Stock. Such dividends are cumulative and are payable at times determined by the CheckFree Management Corporation's Board of Directors. The holders are entitled to one vote per share and each class has certain rights with respect to election of the Company's Board of Directors. On or after January 1, 2004, the Company may, at its option, redeem the shares of Class C and Class D preferred stock for cash, the amount of which is determined by the "Formula Value", plus any accrued but unpaid dividends. The "Formula Value" provides for the price to be par value plus a percentage of the increase in the Company valuation from the inception date, not to exceed a per share price of $500.On or after January 1, 2005, the holders of Class C and Class D preferred stock may require the Company to redeem their shares for cash, the amount of which is determined by the Formula Value defined above, plus any accrued but unpaid dividends. At June 30, 1999 and 2000, the redemption value of the preferred stock is approximately equal to its carrying value. In the event of liquidation, dissolution or winding up of the Company, holders of Class C and Class D preferred stock are entitled to receive, prior to and in preference to any distributions to the holders of Class B preferred stock or Class A common stock, an amount determined by the Formula Value, plus any accrued but unpaid dividends.

Capital Stock – Holders of class A Common Stock are entitled to one vote per share and have certain rights with respect to election of the Company's Board of Directors. The holders of Class B, Preferred Stock have certain additional rights, privileges and preferences. The holders are entitled to one vote per share and each class has certain rights with respect to election of the Company's Board of Directors. The holders are entitled to receive dividends before any dividend is declared or paid on shares of Class A Common Stock. Such dividends are cumulative and are payable at times determined by the Board of Directors. In the event of liquidation, dissolution or winding up of the Company, subject to the redeemable preferred stock preferences, holders of Class B preferred stock are entitled to receive an amount equal to the par value plus any accrued but unpaid dividends.

In December 1998, the Company entered into a Stockholders' Agreement with each holder of common and preferred stock. The agreement restricts the sale or transfer of any shares of stock without express written consent of all stockholders. In addition, the agreement provides that the holder of the Class A Common Stock, CheckFree Corporation, is subject to capital calls when and if the Board of Directors determines that the Company will have a cash shortfall for any quarter. Through June 30, 1999 and 2000, no additional capital contributions were required.

22. Subsequent Events

In the first quarter of fiscal 2001, the Company completed the previously announced agreement to purchase MSFDC L.L.C ("TransPoint") in exchange for 17 million shares of the Company's common stock valued at approximately $1.3 billion. TransPoint is a joint venture between Microsoft, First Data Corporation and Citibank. The acquisition will be accounted for under the purchase method of accounting and is expected to include a charge for in process research and development. The purchase price will be allocated primarily to Goodwill, with an estimated value of $825 million, and Strategic Agreements, with an estimated value of $495 million, both of which will be amortized over a 5-year period. As part of the agreement, the selling parties funded the joint venture with $97.2 million of cash immediately prior to closing. Additionally, a related commercial agreement with Microsoft provides for a revenue guarantee of $120 million over the next five years and a related marketing agreement with First Data Corporation provides for a revenue and/or expense savings guarantee of $60 million over the next five years. TransPoint provides electronic billing and payment processing services.

CheckFree Shareholder Information

Board of Directors

Peter J. Kight
Chairman & Chief Executive Officer

William P. Boardman
Chairman & Chief Executive Officer
First USA Bank

James D. Dixon
President
bankofamerica.com
Bank of America Corporation

Ric Duques
Chairman & Chief Executive Officer
First Data Corporation

Mark A. Johnson
Retired
CheckFree Corporation

Lewis C. Levin
Vice President
Microsoft

Eugene F. Quinn
President
Confluence Capital Partners, LLC

Jeffrey M. Wilkins
Chairman & Chief Executive Officer
Metatec Corporation

Curtis A. Loveland, ESQ.
Porter, Wright, Morris & Arthur
Secretary

Executive Officers

Peter J. Kight
Chairman & Chief Executive Officer

Peter F. Sinisgalli
President & Chief Operating Officer

Ravi Ganesan
Vice Chairman

Lynn D. Busing
Executive Vice President,
Account Management

James S. Douglass
Executive Vice President,
Corporate Development

Matthew S. Lewis
Executive Vice President,
Corporate Development

John J. Limbert
Executive Vice President,
EC Customer Operations

David E. Mangum
Executive Vice President
& Chief Financial Officer

Randal A. McCoy
Executive Vice President,
EC Development

Stephen Olsen
Executive Vice President
& Chief Information Officer

Harley J. Ostis
Executive Vice President,
Human Resources

Frank Polashock
Executive Vice President & President,
CheckFree Investment Services

Allen L. Shulman
Executive Vice President & General Counsel

Tom Stampiglia
Executive Vice President & President,
CheckFree Software Division

Terrie R. O'Hanlon
Senior Vice President,
Marketing & Corporate Communications

Glen Sarvady
Senior Vice President,
Operations Strategy & Planning

Shareholder Information

CORPORATE HEADQUARTERS
CheckFree Corporation
4411 East Jones Bridge Road
Norcross, GA 30092
(678) 375-3000
http://www.checkfree.com

STOCK LISTING
NASDAQ National Market Symbol: CKFR
Transfer Agent and Registrar
Fifth Third Bank
Corporate Trust Services
Mail Drop 1090F5-4129
38 Fountain Square Plaza
Cincinnati, OH 45263
1-800-837-2755
Local: (513) 579-5320

SEC FORM 10-K
A copy of the annual report to the Securities and Exchange Commission on Form 10-K may be obtained without charge to shareholders from the CheckFree website at www.checkfree.com

INDEPENDENT AUDITORS
Deloitte & Touche, LLP
Atlanta, Georgia

INVESTOR INFORMATION
Tina Moore
Investor Relations Manager
(678) 375-1278
tmoore@checkfree.com

All aspects of employment with CheckFree are governed on the basis of merit, job performance, competence and qualifications, and will not be influenced in any manner by race, religion, color, creed, national origin, sex, age, disability or veteran status.

NEWS RELEASES
Available on the CheckFree website at www.checkfree.com

COMMON STOCK TABLE

	High	Low
2000	$ 125.63	$ 23.13
1999	$ 69.13	$ 5.75
1998	$ 31.44	$ 16.50
1997	$ 25.00	$ 9.50
1996	$ 29.38	$ 16.00

CheckFree Corporation
4411 East Jones Bridge Road
Norcross, Georgia 30092
www.checkfree.com