

A black cross-shaped signpost stands at the center of a crossroads. The background is a vibrant, abstract scene with glowing yellow and orange light trails radiating from the center, set against a dark blue and green sky. The signpost has four arms, each pointing towards one of the four directions of the road.

CONSUMERS

AND

**BUSINESSES**

HAVE REACHED A CROSSROADS AS TO HOW

THEY WILL **MOVE** THEIR MONEY

# NEW APPROACH

TECHNOLOGY OFTEN DRIVES THE MARKETPLACE TO A CROSS-ROADS THAT INVITES PARTICIPANTS TO DECIDE WHETHER TO ADOPT A NEW APPROACH OR TO MAINTAIN THE STATUS QUO.

CONSUMERS AND BUSINESSES MAKING FINANCIAL DECISIONS

HAVE REACHED SUCH A CROSSROADS. WITH GATHERING MOMEN-

*D R I V I N G T E C H N O L -  
O G Y*

TUM, THEY ARE ADOPTING A NEW APPROACH TO MOVING

MONEY: FINANCIAL ELECTRONIC COMMERCE. DRIVING THIS

TREND ARE NEW-GENERATION TECHNOLOGY, AND THE CONVE-

NIENCE AND EFFICIENCY THAT IT BRINGS. DRIVING THE

TECHNOLOGY IS CHECKFREE.

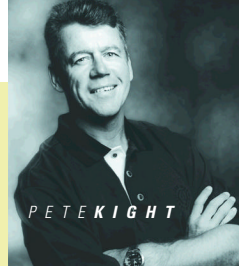
CHECKFREE



## C O N T E N T S

2	PRESIDENT'S LETTER	5	FINANCIAL HIGHLIGHTS	6	FINANCIAL ELECTRONIC COMMERCE
12	FINANCIAL INSTITUTIONS, BILLERS AND THEIR CUSTOMERS	21	SELECTED FINANCIAL DATA		

# TO OUR SHAREHOLDERS



OUR FISCAL 1998 WAS, IN MANY WAYS, A MOMENTOUS YEAR...WE ADDED 48 NEW FINANCIAL INSTITUTIONS TO OUR CLIENT ROSTER, EXTENDING OUR MARKET-LEADING DISTRIBUTION CHANNEL FOR FINANCIAL ELECTRONIC COMMERCE SERVICES DELIVERED TO CONSUMERS UNDER THE BRAND OF THEIR TRUSTED FINANCIAL INSTITUTIONS. We signed as clients 12 major billers – including AT&T, which sends more bills per month than any other entity – cementing our early lead in the emerging electronic bill presentment market. We augmented our 1,000+ electronic merchant connections with 120 more. Intuit, selected us as the provider of choice for bill presentment and payments services through its Quicken® software and Quicken.com™ Web site.

We completed our announced divestiture of five software products that were not complementary to our core business, retaining three that not only strengthen our relationships with financial institutions and billers, but deliver healthy growth and profitability as well. Our Investment Services division reached 500,000 managed portfolios, a 70 percent increase over the prior year.

Each of our divisions posted strong revenue growth and operating income improvements. Finally, we closed the year with a 99 percent client retention rate and our first profitable quarter as a publicly-traded company, on time with the schedule we had announced in 1996.

As significant as these accomplishments are, something even more compelling occurred in our fiscal 1998. It became eminently clear – to CheckFree and to those who follow this market – that the emergence of the Internet as a pivotal financial interchange medium will accelerate, without disruption, the move from paper to electronic banking. The distribution and processing infrastructure CheckFree has patiently built over our more than 15 years of shaping this market now position us to capitalize on the ubiquitous adoption of financial electronic commerce the Internet enables.

**THE LAUNCH OF A NEW ERA** Concurrent with our announcement of our fiscal year 1998 results, we publicly recalibrated our growth expectations for fiscal year 1999 based on a developing trend among the financial institutions that serve as our distribution channel. Many were delaying their promotion of online bill presentment, payment and banking services in order to replace their existing PC-software based services with Internet-based ones – a move we had been advocating. In the absence of vigorous marketing by financial institutions, our subscriber growth rates were slowing. We modified our expected performance based on this information, and shared our new performance targets publicly.

Some stakeholders interpreted our lower subscriber growth expectations as a market slow-down. We believe this move en masse by financial institutions from PC-software-based solutions to Web-based ones clearly indicates the opposite: the preparation for an aggressive launch of services that will protect the position of financial institutions as consumers' "trusted agents" for financial transactions.

As consumer demand for uninterrupted access to financial commerce services over the Internet continues to accelerate, banks and other traditional financial institutions cannot afford to let others redefine what it means to provide financial services to their customers. In this new competitive landscape, software technology companies, Internet portal companies, and regional services firms seeking national reach all become potential competitors.

All of which leads us to expect an exciting fiscal 1999.

Consider this: 18 of our top 30 clients are moving to Internet-based services. Eight of the top 10 expect to be promoting Internet-based bill presentment, payment and banking services before the end of June 1999. Three-fourths of the top 65 expect to have in-market solutions by then.

The "single log-on" opportunity the Internet affords – simplifying the consumer's access to a broad range of services from one site – will spur

customer care support and cost, (2) transaction delivery and settlement quality, (3) bill presentment and payment cost, and (4) integration of electronic banking, billing and payment.

This year, our company completed development of our next-generation processing platform that will enable us – and our customers – to leverage significant economies of scale generated from volume remittance processing, a single processing platform

## ELECTRONIC THE EMERGENCE OF THE INTERNET AS A PIVOTAL FINANCIAL INTERCHANGE MEDIUM WILL ACCELERATE, WITHOUT DISRUPTION, THE MOVE FROM PAPER TO ELECTRONIC BANKING.

the robustness of offerings and consumer adoption. Bank costs will be lowered through the removal of front-end software management and paper-enrollment, and through the displacement of telephone-based customer care with self-service customer care over the Internet.

A browser-based Web format will foster uninterrupted growth in banks service offerings. Banks will be able to add content and services, plus support additional consumer access devices over the same platform. Billers – who for the past 10 years have been a gating factor in this market – will move to an accelerating one, as they seek to use electronic bill presentment and payment services to nurture interactive relationships with their customers that augment total lifetime value, strengthen retention and reduce costs.

As banks move to protect their "trusted agent" position in this changing competitive environment, they must manage two critical elements: user experience and the overall cost of execution. By partnering with CheckFree, the chances for success in each is enhanced through four factors: (1) cus-

and fully integrated customer care. This new platform is capable of handling – with a "dial tone" quality standard – the transaction processing for electronic billing, payment and banking from 30 percent of all U.S. banking households. Round-trip tracking, audit and support, Internet-based self-help from sign-on to settlement, and "six-sigma" quality levels are just a few of the market-leading initiatives CheckFree clients will leverage to drive success in program cost management and the user experiences they deliver.

During the next year, our retained Software business units and Investment Services division will continue to provide key components of our unmatched electronic commerce solutions. In addition to dominating the market with account reconciliation and compliance products, CheckFree's suite of electronic funds transfer solutions continues to expand and reinforce our relationships with banks and businesses. CheckFree Investment Services has already kicked off the new year with the introduction of the Windows-based version of its industry-leading portfolio-management system – CheckFree APL.

Now, as the Internet begins to transform our financial services economy, CheckFree is executing on our corporate strategy – continued growth and unmatched quality of service for our clients. While others in the e-commerce market are just emerging, we – through diligence and patience over the past 17 years – stand ready to help our biller and financial institution clients capitalize on a true "new frontier."

As the leading company in bill payment by a wide margin, and with a similar lead building in bill presentment, we are uniquely positioned. We are a full generation ahead of our competitors in most of our product areas. We got here by developing and bringing to market products and services that virtually no one else recognized or considered. Many companies are working on competitive products they intend to bring into the market as quickly as possible, but while we are introducing new market implementations for bill payment and presentment at an increasing pace, these potential competitors are still in the "pilot" or drawing-board phases of development.

We are at the threshold of what has the potential to be a multibillion-dollar industry. Continuous innovation and a goal of flawless execution are our strategies for maintaining our leadership position.

The foundation to support our success is in place. I believe our accomplishments this past fiscal year are just the beginning of the rewards for our employees and shareholders as we transition to the next generation of financial electronic commerce. Our goal is to have one out of every five banking households using CheckFree by 2001. Here's to making that goal a reality.

Sincerely,



Peter J. Kight  
Chairman and CEO  
CheckFree  
September 24, 1998

## CHECKFREE TIMELINE



# FINANCIAL HIGHLIGHTS

	YEAR ENDED JUNE 30, 1998	1997	SIX MONTHS ENDED JUNE 30, 1996	YEAR ENDED DECEMBER 31, 1995	
Statement of Operations Data:					5
Total revenues	\$233,864	\$176,445	\$51,040	\$49,330	C
Net loss	\$(3,703)	\$(161,813)	\$(138,567)	\$(215)	H
Net income loss per common and equivalent shares outstanding	\$(0.07)	\$(3.44)	\$(3.70)	\$(0.01)	E
Weighted average common and equivalent shares outstanding	55,087	46,988	37,420	28,219	C
Balance Sheet Data:					K
Working capital	\$79,244	\$20,002	\$45,496	\$81,782	F
Total assets	\$250,112	\$223,836	\$196,230	\$115,642	R
Total stockholders' equity	\$183,854	\$148,644	\$137,675	\$99,325	E
Net book value per share outstanding	\$3.32	\$2.73	\$3.32	\$3.09	E

1998

CHECKFREE ASSUMES MANAGE-  
MENT OF INTEGRION'S  
HERNDON, VA., OPERATIONS

CHECKFREE INVESTMENT  
SERVICES REACHES 500,000  
PORTFOLIOS

CHECKFREE SOFTWARE  
LAUNCHES CHECKFREE  
RECON TRADE™

CHECKFREE TO OFFER  
INTERNET-BASED SERVICE TO  
TOTAL SYSTEMS' BANKS AND  
THEIR CUSTOMERS

# FINANCIAL ELECTRONIC COMMERCE: THE SHIFT IS ON

OUR INDUSTRY — THE MARKETPLACE COMES HOME During the early days of major technology shifts, pioneering companies jockey for leadership. The winners become those who are first to read the market correctly, develop appropriate strategies and remain focused, undistracted by the excitement and confusion a new idea often brings.

Today's technology shift is electronic commerce — the arrival of the marketplace in the consumer's home, courtesy of the Internet. That electronic commerce is viable is no longer in question: an estimated 60 million consumers are online — browsing, researching, investing, communicating, shopping and buying.

They are also banking electronically — and receiving and paying bills — in growing numbers. As technology-providers unify processing standards, as banks build and improve Web sites and as merchants arrange for bills to be delivered online, financial electronic commerce is becoming easier and inexorably more popular.

Electronic bill payment is established and growing, with 3.5 million consumers paying bills electronically in 1997, nearly double the number in 1996 and more than four times the number in 1995. Ramping up is electronic bill presentment; by the end of year 2000, a majority of non-rural homes in the United States will have four or more bills available via electronic delivery.

Electronic bill delivery and payment are helping drive public perception of the Internet from that of an interesting pastime to an indispensable household tool. And the company that is driving electronic bill delivery and payment is CheckFree.

CheckFree has been facilitating financial electronic commerce since 1981 — long before the Internet entered the American psyche. The company's leadership is built on experience, proven and superior capabilities, a sound strategy and focused execution. In an industry with numerous new entrants, CheckFree has quietly distanced itself from the pack.

1998

CHECKFREE PEP™, TO  
PROCESS APPROXIMATELY 45  
MILLION ACH TRANSACTIONS  
A YEAR FOR HARRIS BANK

CUNA MUTUAL GROUP BECOMES  
THE FIRST INSURANCE COM-  
PANY TO OFFER CHECKFREE  
E-BILL

1997

AMERICAN ELECTRIC POWER  
Co. TO OFFER CHECKFREE  
E-BILL TO ITS 2.9 MILLION  
CUSTOMERS

HOMESIDE LENDING CHOOSES  
CHECKFREE E-BILL FOR ITS  
MORE THAN 1 MILLION  
CUSTOMERS



“We continue to believe that the Internet will be a significant catalyst for consumer adoption of electronic bill presentment/payment over the next few years, and that CheckFree has the strongest competitive position in this emerging market.”

Furman Selz, August 1998

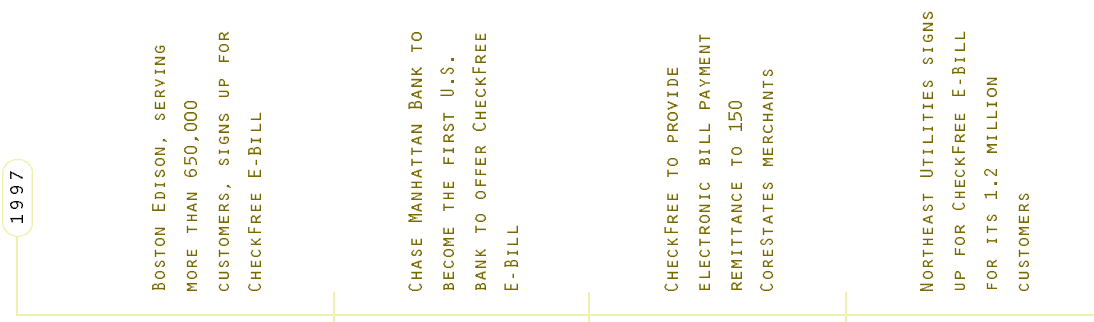
E-COMMERCE BUSINESS UNIT: OUR LEADERSHIP – A PLATFORM OF “DIAL TONE-QUALITY” AND CUSTOMER CARE Central to CheckFree’s strategy is providing the core services and technology that enable financial institutions, as the trusted financial agents of consumers and businesses, to deliver electronic bill presentment and payment services to users. CheckFree provides financial electronic commerce processing services for more than 350 financial institutions – including nine of the top 10, as well as 23 of the top 25 and 40 of the top 50. To fortify and grow those relationships, the company is continually and significantly improving its already unparalleled processing infrastructure.

## THE INTERNET MARKETPLACE

CHECKFREE HAS BEEN FACILITATING FINANCIAL ELECTRONIC COMMERCE SINCE 1981 – LONG BEFORE THE INTERNET ENTERED THE AMERICAN PSYCHE.

INFRASTRUCTURE: THE BEST GETS BETTER June of 1998 marked completion of CheckFree’s platform consolidation project, code-named “Genesis,” which will replace the Chicago; Columbus, Ohio; and Austin, Texas, processing operations. The new platform, housed in Atlanta, can support up to 30 million customers, seven times current levels, and has redundant back-up systems to support seamless, error-free performance. Over the next 12 to 18 months, CheckFree’s existing customer accounts will be migrated to this platform without interrupting service.

In 1998, CheckFree also developed a new Remittance Processing Pipeline (RPP) that aggregates remittances from today’s variety of bill payment and remittance processing systems. By providing a single source for payment consolidation, editing and routing, RPP streamlines processing complexities and costs. Among the results are more efficient and effective consolidated payments, substantial increases in electronic delivery rates and reduced customer inquiries and claims.





“CheckFree has the advantage of a live product offering, an open connection to billers, significant customer care capabilities and an ability to combine bill presentment with by far the largest and most sophisticated bill payment processing and remittance engine in the industry.”

Lehman Brothers, May 1998

“DIAL TONE-QUALITY” Technology companies in new fields have long been known to tolerate errors in performance. A financial institution has no such luxury; its customers expect their money to always be managed correctly. That expectation drives the core CheckFree commitment to “dial tone-quality” service: the reliability consumers have come to expect at all times from their telephone systems, backed by 24-hour customer care.

COMPLETE CUSTOMER CARE The arrival of financial electronic commerce owes much to technology, but CheckFree recognizes the consumer as ultimately pivotal to success. A financial institution’s customers will use the technology only if it is consistently reliable, and if there is a swift and effective response when infrequent problems occur or questions need to be answered.

CheckFree has long provided 24-hour, 7-days-per-week customer care for the electronic billing customers of its financial institution clients. During fiscal 1999, CheckFree Customer Care will be taken to unprecedented levels by two new developments:

- “Self-service” audit systems will enable consumers and billers, from their own computer stations, to track every step of a bill’s electronic roundtrip. This advanced feature meets the customer’s need for immediate information and CheckFree’s goals of complete and efficient service.
- The company has acquired a 150,000-square foot facility in Columbus, Ohio, increasing available space there by nearly 50 percent. This expansion will ensure ample room for Customer Care personnel and technology as the business continues to grow.

Underscoring its commitment to customer care, CheckFree recently named John Limbert executive vice president of customer operations. Mr. Limbert spent 20 years with \$116 billion-asset Banc One Corporation, where he was responsible for a consumer bank with more than 3,000 employees and 350 branches.

1997

FLORIDA POWER & LIGHT  
BRINGS CHECKFREE E-BILL  
TO NEARLY HALF THE  
RESIDENTS OF FLORIDA

INTERNATIONAL BILLING  
SERVICES, THE U.S.’  
LARGEST FIRST-CLASS  
MAILER, CHOOSES CHECKFREE  
E-BILL FOR ITS 65 MILLION  
CUSTOMERS

CHECKFREE BEGINS PROCESS-  
ING ALL BILL PAYMENT  
TRANSACTIONS FOR WELLS  
FARGO CUSTOMERS

BLOCKBUSTER USES  
CHECKFREE RECON-PLUSTM  
FOR WINDOWS® TO AUTOMATI-  
CALLY RECONCILE ITS MORE  
THAN 1 MILLION TRANSAC-  
TIONS PER DAY

CHECKFREE E-BILL SELECTED  
FOR SMITHSONIAN  
COLLECTION

## CHECKFREE PRODUCTS & SERVICES

### FINANCIAL ELECTRONIC COMMERCE PROCESSING

#### Banking Software

QUICKEN®/QUICKBOOKS  
MICROSOFT MONEY (MS MONEY)

#### Banking Service Providers

HOME FINANCIAL NETWORK (HFN)  
EDIFY  
SECURITY FIRST  
EDS

#### Bill Payment

VIA THE INTERNET WITH:  
WEB BILL PAY  
INTEGRION FINANCIAL NETWORK  
IFS BILLPAY

USING TOUCH-TONE TELEPHONE  
BILL PAYMENT

USING PERSONAL FINANCIAL  
MANAGEMENT SOFTWARE SUCH AS:  
QUICKEN/QUICKBOOKS  
MS MONEY  
HFN  
BUSINESS PAYMENTS (FORMERLY  
KNOWN AS APCHECKS)

#### Presentment

CHECKFREE E-BILL<sup>SM</sup>

#### Payment Solutions

CHECKFREE DIRECTCOLLECT<sup>SM</sup>  
CHECKFREE ABT (ACCOUNT  
BALANCE TRANSFER)

### SOFTWARE

#### Reconciliation

CHECKFREE A.R.M.<sup>TM</sup>  
CHECKFREE ARP<sup>TM</sup>/SMS  
CHECKFREE RECON-PLUS<sup>TM</sup>  
CHECKFREE RECON-PLUS<sup>TM</sup>  
FOR WINDOWS®  
CHECKFREE RECON SELECT<sup>TM</sup>  
CHECKFREE RECON TRADE<sup>TM</sup>

#### Compliance

CHECKFREE APECS<sup>TM</sup>  
CHECKFREE IRS<sup>TM</sup>  
CHECKFREE LCR<sup>TM</sup>  
CHECKFREE RRS<sup>TM</sup>  
CHECKFREE YES<sup>TM</sup>/PC FOR  
WINDOWS®

#### ACH

CHECKFREE PEP+<sup>TM</sup>  
CHECKFREE ACH ALLIANCE  
PROCESSING  
CHECKFREE ACH ALLIANCE  
SERVICES

#### Investment Services

CHECKFREE APL  
CHECKFREE APL WRAP  
CHECKFREE APL PLUS

#### Health & Fitness

RCM2001...THE NEXT GENERATION<sup>SM</sup>

WINDOWS IS A REGISTERED TRADEMARK OF  
MICROSOFT. QUICKEN IS A REGISTERED  
TRADEMARK OF INTUIT CORP.

1997

CHECKFREE BECOMES  
PROCESSOR FOR 13 OF THE  
NATION'S 15 LARGEST  
FINANCIAL INSTITUTIONS  
THROUGH AGREEMENT WITH  
KEYCORP

CHECKFREE TO PROVIDE BILL  
PAYMENT PROCESSING FOR  
CHARLES SCHWAB & Co.  
INC., THE NATION'S  
LARGEST ONLINE BROKER

FIRST "LIVE" CHECKFREE  
E-BILL IS DELIVERED

INTUIT SERVICES CORP.  
ACQUISITION COMPLETED,  
BRINGING THE NUMBER OF  
BANKS TO 224 AND THE  
SUBSCRIBER BASE TO MORE  
THAN 1.3 MILLION  
CONSUMERS



Financial

ELECTRONIC COMMERCE

WILL SOON BE  
AS

AS COMMONPLACE

ELECTRICITY

FOR FINANCIAL ELECTRONIC COMMERCE TO REACH ITS  
POTENTIAL, UBIQUITOUS ACCESS MUST BE MADE  
AVAILABLE, AS IT HAS BEEN FOR ATMs, ACCEPTANCE  
OF CREDIT AND DEBIT CARDS AND OTHER TECHNOLOGI-  
CAL INNOVATIONS.

THE PROCESS IS WELL UNDERWAY. MILLIONS OF  
HOUSEHOLDS HAVE PERSONAL COMPUTERS AND ARE  
ONLINE. FINANCIAL INSTITUTIONS ARE INVESTING  
IN ELECTRONIC SERVICES AND GEARING UP TO MARKET  
THEM AGGRESSIVELY. THE PERCENTAGE OF BILLS  
THAT CHECKFREE PAYS ELECTRONICALLY IS MORE THAN  
50 PERCENT AND CLIMBING, AND OVER ONE-FOURTH OF  
THE TOP 100 BILLERS HAVE SIGNED WITH CHECKFREE  
FOR BILL PRESENTMENT.

THESE ADVANCES, THOUGH IMPRESSIVE FOR A YOUNG  
INDUSTRY, WILL SEEM MODEST SOONER THAN WE  
THINK. FINANCIAL ELECTRONIC COMMERCE WILL BE  
AS COMMONPLACE FIVE YEARS FROM NOW AS SATELLITE  
TELEVISION, CELLULAR PHONES AND E-MAIL ARE  
TODAY.

# OUR CLIENTS

## FINANCIAL INSTITUTIONS, BILLERS AND THEIR CUSTOMERS

12

C  
H  
E  
C  
K  
F  
R  
E  
E

### PARTNERING WITH FINANCIAL INSTITUTIONS: THE CUSTOMER'S TRUSTED AGENTS

CheckFree continues to extend its commanding lead in serving financial institutions. During the past year, the company signed a 10-year agreement with the Integrion Financial Network—an alliance of 17 major banks, IBM and Visa U.S.A. that represents more than 75 percent of the nation's banking households. Under the agreements, CheckFree supplies electronic billing and payment processing for Integrion customers and manages Integrion's electronic banking center, which provides bill payment fulfillment and customer service for approximately 50 financial institutions.

In addition to the Integrion consortium, individual banks continue to endorse CheckFree by extending relationships and initiating new ones. During fiscal year 1998, Richmond, Va.-based Crestar Financial Corp. extended its remittance processing contract with CheckFree, and Columbus, Ohio-based Huntington National Bank signed an agreement for home banking and bill payment processing. At the same time, CheckFree secured key agreements with Banc One and Chase Manhattan Bank – the largest bank in the United States. Both banks will work with CheckFree to become the first U.S. banks to offer fully integrated electronic bill presentment and payment to their customers.

By early 1999, 18 of the 30 largest banks in the nation are planning to move from PC software-based electronic banking solutions to Internet-based ones, with strong promotions to back these new programs. Moreover, eight of the 10 largest U.S. banks plan to offer Internet-based online banking solutions before the end of fiscal year 1999. Three-fourths of the top 65 banks expect to be in the market with Web-based services by then as well.

**BILLERS: THE NEXT WAVE** Another powerful CheckFree advantage is its relationship with billers. For nearly two decades, the company has been building a database of merchants that now numbers more than 3 million.

To serve every client and drive the adoption of electronic bill payment, CheckFree pays any bill, whether to the dentist, preschool, lawn service, even the babysitter. Currently, CheckFree

1996

CHECKFREE SIGNS PROCESSING AGREEMENTS WITH TOP-10 RANKED BANC ONE AND CHASE MANHATTEN BANK

ATLANTA IS NAMED CORPORATE HEADQUARTERS, AND PLANS TO EXPAND COLUMBUS, OHIO. FACILITY ARE DISCLOSED

BELLSOUTH, THE SMALL BUSINESS ADMINISTRATION AND THE OPERATING-UTILITY SUBSIDIARIES OF GPU ENERGY SIGN AGREEMENTS FOR CHECKFREE E-BILL

ACQUISITION OF SECURITY APL COMPLETED, ENABLING CHECKFREE CLIENTS TO PROVIDE REAL-TIME BROKERAGE SERVICES, INCLUDING VIA THE INTERNET

“Market research firm Tower Group predicts banks will spend \$930 million annually on online banking applications and services by 2002.”

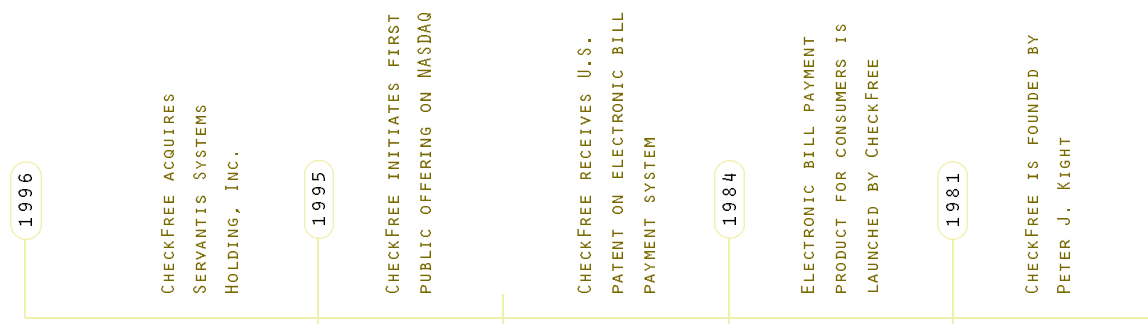
TechWeb News, June 26,1998

processes nearly 10 million payments each month. Today, CheckFree's Columbus platform processes more than 50 percent of its transactions electronically. By year-end 1999, more than half of all CheckFree's transactions will be made electronically. The remainder must be processed and sent by paper because not all billers have the infrastructure needed to receive payments electronically.

BY EARLY 1999, 18 OF THE 30 LARGEST BANKS IN THE NATION ARE PLANNING TO MOVE FROM PC SOFTWARE-BASED ELECTRONIC BANKING SOLUTIONS TO INTERNET-BASED ONES, WITH STRONG PROMOTIONS TO BACK THESE NEW PROGRAMS. MOREOVER, EIGHT OF THE 10 LARGEST U.S. BANKS PLAN TO OFFER INTERNET-BASED ONLINE BANKING SOLUTIONS BEFORE THE END OF FISCAL YEAR 1999.

The transformation from paper checks to all-electronic bill payments cannot happen overnight. Therefore, CheckFree is uniquely able to offer its “pay-anyone” capability to serve each bank or biller's needs, until they are able to process electronic payments.

CheckFree also has made great strides in the emerging bill presentment market, with more than one-fourth of the top 100 billers currently under contract – including AT&T, BellSouth, Chase Credit Card and Mortgage, Florida Power & Light, First U.S.A., American Electrical Power, Southern California Edison, CUNA Mutual Group and HomeSide Lending. These efforts will continue in fiscal-year 1999, moving closer to CheckFree's goal of signing more than half of the top 100 billers. CheckFree E-Bill<sup>SM</sup> – the only fully integrated, end-to-end system for electronic presentment and payment of richly formatted bills over the Internet – uses existing payment systems and allows consumers to access and pay their bills through the branded home-banking services of financial institutions. CheckFree also has announced bill presentment alliances with





CheckFree E-Bill won the 1998 Marketing Award for Excellence sponsored by Georgia State University and the Atlanta Business Chronicle.

major billing outsourcers, including International Billing Services, a communications industry statement processor serving 65 million consumers; and Total System Services, one of the world's largest credit card processors.

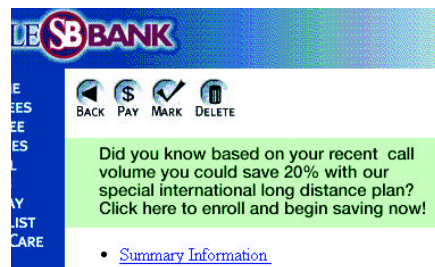
As billers and consumers begin demanding electronic bill presentment and payment, and as banks prepare their next-generation Web offerings for these services, CheckFree is helping provide other access points, including its own Web site. Intuit Corporation uses CheckFree E-Bill exclusively to present bills on its Quicken.com Web site and CheckFree payment services to enable bill payment from its market-leading Quicken and QuickBooks software. Quicken has more than 10 million users – with the potential for another 10 million consumers to access Intuit's services through its relationship with America Online.

For billers, the value of financial electronic commerce is both economic and strategic. The cost of printing, processing and distributing paper-based bill payments ranges from 85 cents to \$1.50 each. The cost of electronic bill presentment and receiving an electronic payment, by comparison, is about 40 cents each per round-trip. CheckFree can also reduce the cost of processing incoming payments by more than 60 percent.

From a strategic standpoint, electronic bill presentment and payment enables billers to form more personalized interactive relationships with their customers. Using CheckFree E-Bill, they can embed graphics, logos, animation and “hot links” into the electronic bill to create marketing messages and interactive “statement stuffers.” Further, they can add to their bills targeted, customer-specific marketing messages and offers to help retain and grow customer relationships.

Currently, billers will find three electronic bill presentment models. One requires the consumer to visit the Web site of each biller to first enroll, then receive and pay their bills – a cumbersome prospect. Another routes all billing information through the bill presentment provider's proprietary systems, raising data security concerns, limiting marketing opportunities and requiring investment in the provider's equipment.

#### GROWING CUSTOMER RELATIONSHIPS



TODAY'S FULLY INTERACTIVE FINANCIAL MANAGEMENT WEB SITES PROVIDE CUSTOMERS WITH A NEW LEVEL OF ACCESS AND CONVENIENCE. RECEIVING AND PAYING BILLS THROUGH THE BANK WEB SITE OF THEIR CHOICE ALLOWS CUSTOMERS TO OBTAIN VALUABLE TIME- AND MONEY-SAVING INFORMATION.



“Our partnership with CheckFree has provided Rittenhouse with the portfolio management automation necessary to allow us to turn our focus away from managing processes and toward our greatest strength, managing assets.”

Diane Goldstein, vice president of operations for Rittenhouse  
Securities Industry News, April 6, 1998

In contrast, CheckFree E-Bill customers find all of their bills at one Web site – that of the financial institution or other consolidator of their choice. Data security is assured, since billers can choose to present only summaries of their bills at these sites. The more detailed billing information is stored securely at the biller’s site, which the consumer can access easily by clicking on “bill detail.” These visits to biller sites also create compelling new marketing opportunities for creative billers.

CONSUMERS: ACCELERATING DEMAND As well as satisfying the requirements of financial institutions and billers, CheckFree’s model is ideal for consumers because it consolidates bills conveniently in one location. That location – the financial institution’s Web site – is one that they trust, and one they will visit anyway to conduct their electronic banking.

Americans spend on average about two hours a month paying the 18.2 billion bills a year sent to them, according to Tower Group, a Newton, Mass.-based market research company. The inevitable gravitation of consumers to efficiency and convenience, and their increasing access to and comfort with technology, will help drive the adoption of financial electronic commerce.

The 2.4 million consumers CheckFree currently serves represent a 45 percent increase compared to a year ago. Even so, the market is barely penetrated. About 2 percent of consumers use electronic bill payment, and industry revenues total about \$200 million. Within five years, industry analysts believe the majority of banking households will move more money electronically than by paper-based systems and industry revenues will total approximately \$6 billion.

Research indicates that consumers will begin utilizing bill presentment en masse when four bills per month are presented online; CheckFree currently has enough billers in implementation to generate two of those bills. The threshold of four will be reached simply by adding, for example, one bill from the consumer’s bank and one from a local utility.

As with previous technology shifts, such as the arrival of ATMs and credit cards, acceptance and ultimately demand will accelerate as financial institutions ramp up availability and marketing. Experience has shown that subscribers are ready and waiting to enroll when financial institutions aggressively market their electronic financial services: Preliminary figures indicate as much as 10,000 subscribers per day.

Financial institutions are busy preparing their next-generation Web offerings for financial electronic commerce and plan to roll them out and market them extensively by early 1999.

“Bill Burnham, (former) senior research analyst at Piper Jaffray Inc., Minneapolis, said Harris (Trust and Savings Bank) is a ‘big win’ for CheckFree and could signal that there will be more attraction to this (ACH outsourcing) business.”

*American Banker, February 11, 1998*

INVESTMENT SERVICES DIVISION: 500,000 AND COUNTING CheckFree Investment Services is a fast-growing, profitable division with products at the vanguard of the investments industry. And, investments are another important component of financial electronic commerce that, over time, will be integrated into the electronic-service packages of financial institutions.

CheckFree has quietly but impressively built this business. In just three years, the CheckFree team has more than doubled the number of portfolios under management of CheckFree APL and CheckFree APL Wrap, the leading portfolio-management system in the industry. A milestone of 500,000 portfolios was achieved in June of 1998. The portfolios managed by CheckFree’s institutional clients now total more than \$350 billion in assets.

CheckFree APL and CheckFree APL Wrap are used by more than 225 money-management institutions to offer their customers portfolio accounting, performance measurement, trading and reporting systems. True to form, CheckFree is invisible in providing this service, which is privately branded by the client. Clients include Brown Brothers, Northern Trust, Pershing (a division of DLJ), Rittenhouse Financial Services and Charles Schwab & Co., Inc.

#### CHECKFREE’S SOFTWARE DIVISION: FORTIFY AND EXPAND RELATIONSHIPS

In addition to its market-leading Electronic Commerce and Investment Services divisions, CheckFree augments its position with cutting-edge software targeted toward essential operations of financial institutions.

Software applications exist where they build or reinforce CheckFree’s relationships with financial institutions and billers, two key constituencies in financial electronic commerce. With this strategy in mind, CheckFree is extending its leadership in Automated Clearing House (ACH) processing, reconciliation and compliance products and services.

The company continues to enhance its ACH processing capabilities. CheckFree dominates this business, with more than two-thirds of the six billion ACH payments made each year processed through the company’s ACH application software, PEP+™. Recently, CheckFree and Houston-based US Dataworks announced an alliance to add US Dataworks’ “Returnworks” module to CheckFree’s ACH services. The new module helps financial institutions reduce costs and increase revenue from more efficient management of ACH return items and returned checks (RCKs).

CheckFree is also extending its ACH leadership overseas in Australia, Chile, Panama, Guatemala, Colombia and Malaysia.

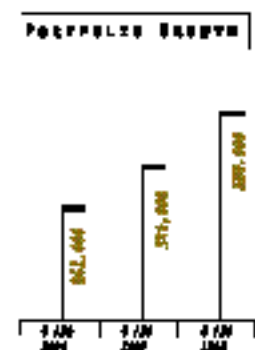
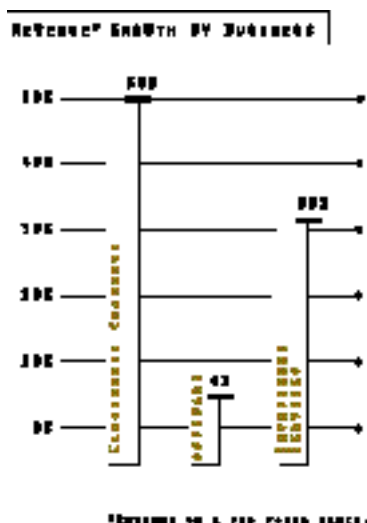
CheckFree leads in providing outsourced ACH services for financial institutions. As the developer of PEP+, CheckFree is uniquely positioned to capitalize on the leading software while providing banks a cost-effective alternative with virtually unlimited capacity. In fiscal 1998, Harris Trust and Savings Bank, a leading provider of cash management services, and First Commerce Technologies, which furnishes transaction processing for more than 250 communi-

ty banks, have outsourced their ACH processing to CheckFree. Combined, the two companies conduct nearly 60 million ACH transactions per year. In addition, the ACH Business Unit launched its first Alliance Services offering with NationsBank. Through this service, the PEP+ system remains resident at the bank, while CheckFree technical personnel – with the assistance of a dedicated CheckFree liaison on-site at the bank – maintain PEP+ remotely.

Currently, 328 banks and businesses use CheckFree's reconciliation products and services, including CheckFree RECON-Plus™ for Windows, the industry's leading account-reconciliation software package. Companies that upgraded their systems to RECON-Plus for Windows during the past year include AT&T, Blockbuster, Home Depot, Canada-based Rogers Cablesystems, the Liquor Control Board of Ontario – the world's largest single retailer of alcoholic beverages – and ABN AMRO North America, Inc., a subsidiary of ABN AMRO Bank N.V., the world's 8th-largest bank.

Leveraging its RECON-Plus for Windows technology, CheckFree recently launched CheckFree RECON Trade™, a Windows-Based client/server solution for financial-service companies that reconciles securities activity – providing yet another link to financial institutions. Early clients of RECON Trade include ABN AMRO North America, Inc.

CheckFree continues to expand its niche in providing reconciliation solutions for banks and corporations through other new product introductions, including CheckFree A.R.M.™, an accounts receivable (A/R) matching solution that will help financial institutions streamline A/R processing for their corporate customers, and CheckFree RECON Select™, a Windows-based, client/server solution for automating reconciliation operations organization-wide.



CHECKFREE IS ON THE THRESHOLD OF LEADING A MULTIBILLION-DOLLAR INDUSTRY. ASSUMING NOTHING, THE COMPANY WILL PROTECT AND ADVANCE ITS LEADERSHIP BY MEETING FINANCIAL GOALS, DELIVERING “DIAL TONE-QUALITY” SERVICE, ADDING AND IMPROVING BUSINESS RELATIONSHIPS, ENHANCING PRODUCTS AND SERVICES AND CARVING NEW NICHEs IN FINANCIAL ELECTRONIC COMMERCE. PIONEERING IS NOT ENOUGH; CHECKFREE IS COMMITTED AND PREPARED TO MOVE PAST THE THRESHOLD TO SUSTAINED LEADERSHIP.

EVERY SO OFTEN, A COMPANY RECOGNIZES A COMING TECHNOLOGY SHIFT BEFORE THE REST OF THE MARKETPLACE. IF THE COMPANY BUILDS ITSELF AROUND THIS VISION STRATEGICALLY AND PATIENTLY, IT CAN LEAD AN INDUSTRY — EVEN WHEN IT EVENTUALLY DRAWS COMPETITORS MANY TIMES ITS SIZE.

CHECKFREE IS SUCH A COMPANY, HAVING SPENT THE BETTER PART OF TWO DECADES BUILDING ITS LEADERSHIP IN FINANCIAL ELECTRONIC COMMERCE. IT HAS PERFORMED THE UNGLAMOROUS BUT CRITICAL TASKS OF BUILDING SYSTEMS, COMPILING DATABASES, CREATING PRODUCTS AND INTER-CONNECTING BILLERS AND FINANCIAL INSTITUTIONS. ALONG THE WAY, IT HAS CULTIVATED THE BANKING INDUSTRY’S TRUST AND



WE ARE ON THE  
*THRESHOLD*  
OF *LEADING*  
A *MULTIBILLION -*  
DOLLAR INDUSTRY.